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AZ CORP COMMISSION
DOCKET CONTROL

Transcript Exhibit(s)

Docket #(s): WS-04235-13-0331

Arizona Corporation Commission
DOCKETED

MAR 10 2015

DOCKETED BY

Exhibit #: A-3 - A-7

Part 3 of 3

For Part 1 see bar code 0000160481

For Part 2 see bar code 0000160482

Steve Wene, No. 019630
MOYES SELLERS & HENDRICKS LTD.
1850 N. Central Avenue, Suite 1100
Phoenix, Arizona 85004
(602)-604-2189
swene@law-msh.com
Attorneys for Utility Source, L.L.C.

EXHIBIT
A-3
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP, CHAIRMAN
GARY PIERCE
BOB BURNS
SUSAN BITTER SMITH
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-13-0331 **REBUTTAL TESTIMONY OF LONNIE McCLEVE**

Table of Contents

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

Sewage Treatment Facility
CAPACITY ASSURANCE

J:\shared\WEDR\APPLICATIONS-CollectionSystems\Notice Of Intent To Discharge -CAPACITY ASSURANCE for Sewage Treatment Facility

Instructions: The owner or operator of the downstream sewage treatment facility must complete and submit this Capacity Assurance Form to comply with Arizona Administrative Code (AAC) R18-9-E301(C)(1).

1. Sewage Treatment Facility:

Name: Flagstaff Meadows Wastewater Treatment Plant

APP (Aquifer Protection Permit) Number: P 104083

AZPDES Permit Number: AZ0024708

ADEQ Site Code: 32797

Address: East 185 off Interstate 40

Bellemont, AZ 86015

Telephone No.(480) 988-2541 Fax No. (480) 988-2541

2. Owner/Operator for Facility Operation:

Name: Lonnie McCleve

Position: Waste Water Treatment Plant Owner

Firm Name: Utility Source

Address: 721 San Pedro

Gilbert, AZ 85234

Telephone No.(480)892-8756 Fax No. (480) 892-3387

3. Facility Capacity:

Current 208 Plan* Approved Capacity: .150 (MGD)

Constructed Capacity: .0.13750 (MGD)

APP Approved Capacity: 0.150 (MGD)

AZPDES Discharge Limit: 0.150 (MGD)

Operational Flow: .07155 (MGD)

*Areawide Wastewater Management Plan, per Section 208 of the Clean Water Act (State only capacity indicated in current approved plan on file with the Designated Management Agency)

4. Proposed Subdivision or other project:

Name: Flagstaff Meadows, Unit 3, PH I

Design Flow: 0.03 (MGD)

Provide list of all previously approved subdivisions, commercial and industrial customers and associated design flows.

Total Design Flow Connected to Facility: 0.03 (MGD)

Capacity is expressed in million gallons per day (MGD) based on the monthly average capacity of the facility. **Operational Flow** is expressed in MGD based on the maximum monthly average flow for the last 12 months. **Design Flow** is based on the design flow for the proposed subdivision as submitted in accordance with AAC R18-9-E301.

5. Facility Plan and Schedule to Construct Additional Capacity: (Provide detail if total design flow connected to facility is greater than APP approved capacity)

6. Capacity Assurance: To be completed by owner/operator identified in Item "2" above.

I, Lonnie C. McCleve, affirm that the additional volume of sewage delivered to the facility by the sewer collection system serving the proposed subdivision will not cause any flow or effluent quality limits of the facility's individual permit to be exceeded. I am aware that there are significant penalties for submitting false information including permit revocation as well as the possibility of fine and imprisonment for knowing violations.

Signature: [signature] Date: 5/31/2007

I. GENERAL INFORMATION AND POSITIONS

Q. Please state your name and your role in this matter.

A. Lonnie McCleve. I am an owner of Utility Source, LLC ("Company"). I oversee the Company. Typically, the day to day operations are handled by the Company's office manager and system manager, but they keep me informed regarding significant issues. The Company's other owner, Gary Bulechek, will sometimes oversee certain projects and he will keep me informed as to those undertakings as well. I have held this position since the Company was granted a CC&N in 2005. I have also developed several properties over time, including Flagstaff Meadows, which is served by the Company.

Q. What is the purpose of your testimony?

A. I am commenting on the non-financial issues raised by Staff and the interveners. I will focus on those issues where the Company has a contrary view to those expressed by Staff or an intervener.

II. RESPONSE TO CERTAIN STAFF POSITIONS

Q. Staff's engineer recommended that the Company finish constructing the block wall around Well 2 and install a functioning gate. Does the Company agree with this recommendation?

A. The Company understands that it has to have site control of the well and needs to have a fence, wall, or some type of enclosure to keep people away from the well. The Company understands this requirement and agrees to finish the work. However, based on our experience, we know the county may have specific requirements as to what type of structure is built and where it is located. All we ask is that the recommendation be worded so we are required to build a structure that complies with the enclosure rule, but leave some flexibility to enable the Company to build a cost-effective structure.

Q. Staff's engineer recommended that the Company adopt five BMPs selected by Staff. Does the Company agree with this recommendation?

A. No. The Company understands that the Commission no longer routinely requires BMPs. Our understanding is that BMPs are usually adopted when water loss is high. Here, the Company's water loss is around 5%, which is very good for a small water company. So there is no need for BMPs. Further, if BMPs are required, then the Company should be able to select which ones are most appropriate rather than Staff dictating those to apply.

Q. Regarding Deep Well 4, Staff recommends that the Company be required to get Commission approval to sell Deep Well 4. Does the Company agree with this recommendation?

A. The Company has no intention of selling Deep Well 4, so this is not an issue.

Q. Staff also recommends that the Company cannot require a developer to pay for construction of a new well. Does the Company agree with this recommendation?

A. No. Neither the Company nor Staff knows what a developer may plan. A developer may want to construct a planned community where the demand is beyond the current capacity of the Company system. In such a case, it might be prudent to have the developer pay for another well.

Q. Staff's engineer recommends that the Company repair the wastewater treatment plant mixed media filter. Does the Company agree with this recommendation?

A. The Company accepts this recommendation, provided the costs are reasonable, which should be less than $10,000. To be clear, the plant meets the effluent standards for producing irrigation water without this equipment being operational.

Q. Discuss Staff's testimony regarding the standpipe that the Company has built.

A. My partner, Gary Bulechek, was the point person on this project. The Company was selling bulk water from a fire hydrant, primarily to contractors and commercial users. Coconino County staff approached the Company and said it would no longer allow the Company to operate in this manner and would need to build a loading station. Put another way, the Company built the new load station to comply with the County rules and staff comments.

During this time, the Company was making approximately $3,500 a year from bulk water sales through the hydrant. The Company had no intention of making this an expensive building project. But by the time we hired an engineer, followed his advice, and then had to make multiple improvements demanded by the County, we had spent around $50,000 and the project was still not complete. Gary and I decided it made economic sense to finish the project so that the costs expended could be recovered over time.

As far as revenues, the Company believes it will generate more revenue than the $3,500 a year gained from sales through the fire hydrant. How much more is anyone's guess. Staff seems to assert that the Company will sell 200,000 gallons every month, which is very improbable especially during the winter. The 200,000-gallon estimate is the maximum that could be served, not a projection of what will be served. Put another way, it is a peak demand estimate that might occur some year; not a monthly estimate that will occur every year.

Q. Staff recommends the Company file a new rate case with a 2015 test year based upon its belief that the standpipe operation could generate $52,000 a year. Do you agree with Staff's recommendation?

A. No. First, this rate case will still be ongoing in 2015 and we will not have had time to recover our rate case expense by the time we have to file another case. The new rates will not be in effect for a year by the time we have another test year. Adding the cost of another rate case so soon would be a tremendous burden on the customers. If Staff is concerned about the Company over-earning, then it might be prudent to state that the Company needs to file another rate case if Company revenues exceed the revenue requirement by 10%. But to require a new rate case when we do not know the impact of the fill station seems to build additional cost without a factual basis. My understanding is the Commission usually requires a small water company to file for a rate case once every five years, and we are fine with that approach.

III. FIRE PROTECTION PLANT ISSUES

Q. The interveners raised concerns regarding fire protection plant inclusion in rate base and reliability. Please comment on those issues.

A. The Company has 34 fire hydrants. My understanding is that fire hydrants are properly included in rate base. The reliability issues have been resolved. This was confirmed by the local fire chief, who noted that he understood that adequate repairs have been made. *See* Mark Sachara email dated July 29, 2014 (enclosed in filing by Terry Fallon). In 2011, an electrical issue arose and was repaired in a reasonable time. Between 2012 and 2013, there were mechanical issues that required repeated repair. A bolt repeatedly broke, even after upgrading the quality of the bolt twice. After the fourth bolt, which was custom made with dense material, broke the Company had a machinist mill a retention system and that has solved the issue to date. Please note that the dates provided herein are more accurate than what was previously provided in the response to Nielsen's data request 1.6.

IV. RESPONSE TO NIELSEN ISSUES

Q. Intervenor Nielsen argues that Utility Source is not in compliance with Commission Decision 67446. Do you agree?

A. No. Decision 72261 acknowledged that Staff concluded the Company complied with Decision 67446, ADWR, and ADEQ. The Commission adopted Staff's recommendation and found that the Company was in compliance and the performance bond held to ensure performance was released.

Nielson's primary concern is the ownership of land. Right after Decision 72261 was issued, the Company instructed its attorney and engineer to transfer real property rights at issue to the Company. To secure compliance, the Company filed two deeds and two easements transferring rights to the Company. The Company trusted its consultants to perform the task properly. If there are any discrepancies that were not previously resolved and that exist today, the Company will rectify them. The Company and its owners fully intend to have the Company own the production wells that concern Nielson.

One issue that needs to be addressed is the registration of the wells in the ADWR data base. The Company is aware that several of its wells are still registered under other entities and the Company will rectify this issue as soon as practical.

Q. Intervener Nielsen argues Deep Well 4 should not be in rate base for various reasons. Please comment on his position.

A. The Company has not requested Deep Well 4 be included in rate base. While Mr. Bulechek is in charge of this project, my understanding is that new source testing was performed on this well around 2005-06 and the water quality is good. This well is currently offline, but it is our intention to begin using it in the near future. The Company is going to file all finalization documents soon because the intent is to start using this well as a production well for the system.

Q. Intervener Nielson seems to criticize comments you allegedly made concerning water rates and the development of Flagstaff Meadows Unit III and the proposed Loves Travel Center. Please comment.

A. I am familiar with the expenses necessary to run these utilities. On several occasions, I have stated publicly that unless the community grows with new customers, utility rates could double. As demonstrated by our rate applications, as well as the analysis by Staff and RUCO, my projection has proven accurate. The Company would like more customers to help spread the cost of operating the utilities.

Q. Intervener Nielsen alleges either the Company or its ownership has withheld information and documents relating to the period when the utilities were operated by the property owners' association. Please comment.

A. The allegation is false. We turned over the records to the property owners' association years ago. The issues related to the property owners' association operating the utilities and the rate base has already been addressed by the Commission.

Q. Nielsen also alleges that the Company has a line extension agreement with Empire Builders. Do you have such an agreement?

A. No. Nielsen is raising concerns about events that occurred approximately ten years ago. I do not recall that we executed a line extension agreement. Our attorney who would have addressed this issue is retired and the Empire Builders' project went bankrupt. We reviewed our files and did not find an extension agreement with Empire Builders or any entity associated with the development it proposed. On September 12, 2014, the Company responded to Nielsen's second set of data requests by stating the Company does not have such agreements.

Q. Nielsen alleges the utilities are overbuilt. Do you agree?

A. No. I would like to point out that Staff's engineer did not believe the systems are overbuilt either.

Q. Nielsen alleges no hydrologist was consulted when Deep Wells 1 and 2 were constructed. Is that true?

A. No. When siting Deep Well 3, however, the hydrologist employed different methods, which worked better.

Q. Comment on Nielsen's statements that the Company did not respond to his data requests relating to peak daily flows in March of 2012.

A. The Company staff read the meter. We do not know why the flow was higher that month.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Steve Wene, No. 019630
MOYES SELLERS & HENDRICKS LTD.
1850 N. Central Avenue, Suite 1100
Phoenix, Arizona 85004
(602)-604-2189
swene@law-msh.com
Attorneys for Utility Source, L.L.C.

EXHIBIT
A-4
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP, CHAIRMAN
GARY PIERCE
BOB BURNS
SUSAN BITTER SMITH
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-13-0331 **REJOINDER TESTIMONY OF LONNIE McCLEVE**

Q. Please state your name and your role in this matter.

A. Lonnie McCleve. I am an owner of Utility Source, LLC ("Company").

Q. Have you filed testimony in this case previously?

A. Yes.

Q. Has your testimony changed significantly?

A. No, and I adopt my earlier testimony herein.

Q. What is the purpose of your rejoinder testimony?

A. I am commenting on the non-financial issues raised by Staff and the intervenors in their surrebuttal testimony.

Q. Please comment on the surrebuttal testimony of Staff's engineer regarding the enclosure around Well 2 and install a functioning gate.

A. We seem to agree that the Company should be able to construct a cost-effective enclosure, whether that is a fence or a wall, provided it meets all of the regulatory requirements. Knowing that permitting may be required, which often takes quite some time for approval, the Company believes the deadline for filing proof of construction should be at least 120 days.

Q. Does the Company agree with Staff's recommendation regarding BMPs?

A. No. The Company maintains its position on BMPs.

Q. Regarding Deep Well 4, does the Company agree with this recommendation?

A. In surrebuttal, Staff explained that it wants the Commission to prohibit Utility Source from selling the well at a profit and then requiring a developer to drill another well. There is no basis for this concern. Again, the Company has no intention of selling Deep Well 4. This well was drilled to serve Flagstaff Meadows III. The Company hopes that development occurs and Deep Well 4 is needed to meet the increased water demand.

Q. Does the Company agree with Staff's position in surrebuttal regarding a developer paying for a new well?

A. I believe so. Staff's surrebuttal essentially states that the Company can require a developer to pay for the construction of a new well if another well is reasonably necessary to meet water demand. This is consistent with the Company's position.

Q. Does the Company agree with Staff's position in surrebuttal regarding fire

protection and water pressure?

A. No. Staff wants an engineering report on fire flow pressure during high water demand events, including the demand of the standpipe. Staff bases this recommendation on the fact that between 2011 and 2013, there were a few instances when pressure was not sufficient for fire flow. But the mechanical repairs to the pressure pump have been made, which was confirmed by the local fire chief. Admittedly, when a power outage occurs, the pressure pump will not work. The Company does not think an engineering report is necessary.

Nevertheless, if Staff would agree to increase the monthly minimum rates to cover the cost for the engineering report, then the Company would not oppose the recommendation. The Company does not know at this time how much such a report would cost because it does not know what Staff wants included in the report.

Q. Discuss Staff's testimony regarding the standpipe that the Company has built.

A. As stated previously, my partner, Gary Bulechek, was the point person on this project. The Company was selling bulk water from a fire hydrant primarily to contractors and commercial users. Coconino County staff approached the Company and said it would no longer allow the Company to operate in this manner and would need to build a loading station. Put another way, the Company built the new load station to comply with the County rules.

During this time, the Company was earning approximately $3,500 a year from bulk water sales through the hydrant. The Company had no intention of making this an expensive building project. But by the time the Company hired an engineer, followed his advice, and then had to make multiple improvements demanded by the County, we had spent around $50,000 and the project was still not complete. Gary and I decided it made economic sense to finish the project so that the costs expended could be recovered over time. As far as revenues, the Company believes it will generate more revenue than the $3,500 a year gained from sales through the fire hydrant. How much more is anyone's guess.

Q. Please comment on Staff's position relating to the new standpipe operations.

A. First, Staff argues that the Company is "downplaying" the financial impact of the standpipe operation. This is not true. However, the Company does not know how much revenue the standpipe will generate. Further, without any support, Staff claims that all of the revenue from the standpipe operation will flow directly to the owners. This is pure speculation and not even contemplated. The revenues will be treated like all other revenues and will be used to pay the expenses of running the Company.

Q. When should the Company need to file another rate case?

A. The Company has not changed its position.

Q. In his testimony, Nielsen implied that the Company was endangering public health by selling bulk water through a fire hydrant. Is this true?

A. No. The water being sold was drinking water, sold for construction purposes. I understand this is a common practice throughout Arizona. However, Coconino County requires a standpipe for such water sales.

Q. Nielsen further claims that the Company built the fill station without ACC

permission, is that true?

A. Yes, because ACC permission was not necessary.

Q. Please comment on Nielsen's surrebuttal testimony relating to the ownership of the fire hydrants, wells, and other plant and records relating to the time when the utilities were operated by the property owners' association.

A. Nielsen is raising issues that have been established by the Company, reviewed and litigated by Staff, and resolved by previous Commission decisions. To be clear, the Company owns the fire hydrants, the wells, and all of the plant included in its rate base. Admittedly, the Company did need to update the Arizona Department of Water Resources' well registry to show the Company owned the wells, which it has done. *See* enclosures.

As for the property owners' association records, those documents were turned over to the property owners' association approximately seven years ago. Apparently, Nielsen is attempting to establish that the property owners' association paid for the construction of the utilities, which is not true. In the previous rate case, the rate base for the Company was established and any contributions were identified at that time.

Q. Please explain what the Company intends to do with Deep Well 4.

A. Deep Well 4 was constructed to serve Flagstaff Meadows III. The Company intentionally held Deep Well 4 out of rate base for the sake of its customers. The Company intends to bring Deep Well 4 into service soon. This will help alleviate any concerns about the Company's ability to meet peak demands and redundancy.

Q. Please explain the Company's office situation.

A. When the Company was first established, the office was in my personal home. The Company paid the electric bill in lieu of rent. This was not a desirable situation, especially as the need for more space grew. While I still have an office in my home, we moved most of the operations to its current office site at 20525 E. Chandler Height in Queen Creek. This office was acquired as part of a development known as The Pecans. Through my business holdings, I am the declarant who controls the office.

This office is situated at the entrance of The Pecans subdivisions, so there is signage about lot sales, realtors, and other postings one would expect to see at a community gate house. Nonetheless, the Company uses the building to conduct business. I also use this address to receive my business mail, rather than having it come to my home address. Moreover, as explained in responses to data requests, we do allow brokers to use the conference room and meet potential buyers at the gate house office. The only expense Utility Source has for the use of this office is that it continues to pay the utility bill at my personal home, which is less than the Company would pay for renting office space and paying its utilities.

Q. Please comment on Mary Ann Parry's role with the Company.

A. She works full-time for the Company. Nielsen's claim that performing the office management for two regulated utilities can be done on a part-time basis is simply wrong. Her salary is reasonable for the work she performs.

Q. What is your opinion regarding Nielsen's proposed adjustments relating to Mrs. Parry's salary, phone service, copiers, office supplies, power bills, and auto expense?

A. The Company's expert Mr. Bourassa presents the Company's position, but I believe Neilsen's adjustments are off-base. Nielsen is basing these adjustments on his opinion and conjecture.

Q. Does this conclude your rejoinder testimony?

A. Yes.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER
55-593267

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	NW	SE	SW	203	47	001H

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E. Chandler Heights Road

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☑ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/23/2014

Reference	DWR-2589
Amount	$30.00
Date	10/23/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER 55-598834

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SW	SW	203	47	003A

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E. CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2590
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER
55-203241

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SW	SW	203	47	003A

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E. CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2591
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources P.O. Box 36020 Phoenix, Arizona 85067-6020 (602) 771-8527 - www.azwater.gov	**Receipt For Request to Change Well Ownership**

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER [illegible]

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

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22N	5E	36	SW	SW	SE			

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
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MAILING ADDRESS
20520 E. CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2595
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER
55-503545

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SE	SW			

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E. CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2596
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER [illegible]

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

SECTION 1

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SW	SE			

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2594
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER 55-564258

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SW	SE			

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E. CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHELBARRY	10/24/2014

Reference	DWR-2593
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER
55-598623

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SW	SW	203	47	003A

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILTIY SOURCE, LLC

MAILING ADDRESS
20520 E. CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

SECTION

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2592
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Steve Wene, No. 019630
MOYES SELLERS & HENDRICKS LTD.
1850 N. Central Avenue, Suite 1100
Phoenix, Arizona 85004
(602)-604-2189
swene@law-msh.com
Attorneys for Utility Source, L.L.C.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP, CHAIRMAN
GARY PIERCE
BOB BURNS
SUSAN BITTER SMITH
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-13-0331 **NOTICE OF FILING REBUTTAL TESTIMONY**

Utility Source, L.L.C. ("Company"), hereby files rebuttal testimonies described below:

- Rebuttal Testimony of Tom Bourassa regarding Rate Base, Incomes Statement and Rate Design (Attachment 1);
- Rebuttal Testimony of Tom Bourassa regarding Cost of Capital (Attachment 2); and
- Rebuttal Testimony of Lonnie McCleve (Attachment 3).

Steve Wene

Original and thirteen (13) copies
of the foregoing filed this
3rd day of October, 2014 with:

Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copies of the foregoing mailed
this 3rd day of October, 2014 to:

Wesley Van Cleve
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Daniel W. Pozefsky
Chief Counsel
Residential Utility Consumer Office
1110 West Washington Street
Suite 220
Phoenix, Arizona 85007

Erik Nielsen
4680 N. Alpine Drive
P.O. Box 16020\
Bellemont, Arizona 86015

Terry Fallon
4561 Bellemont Springs Drive
Bellemont, Arizona 86015

Donnelly Herbert

ATTACHMENT 1

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-13-0331

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

(RATE BASE, INCOME STATEMENT AND RATE DESIGN)

October 3, 2014

TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying in this proceeding on behalf of the applicant, Utility Source, LLC ("USLLC" or the "Company"). USLLC is seeking changes in its rates and charges for water utility service in its certificated service area, which area is located in Yavapai County.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application in this docket. There were two volumes, one addressing rate base, income statement and rate design, and the other addressing cost of capital.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. To respond to the direct filings by Staff and RUCO relating to rate base, income statement and rate design for USLLC. In a second, separate volume of my rebuttal testimony, I present an update to the Company's requested cost of capital as well as provide responses to Staff and RUCO on the cost of capital, the rate of return applied to the fair value rate base, and the determination of operating income.

II. SUMMARY OF USLLC'S REBUTTAL POSITION.

Q. WHAT ARE THE REVENUE INCREASES FOR THE WATER AND WASTEWATER DIVISIONS THAT THE COMPANY IS PROPOSING IN THIS REBUTTAL TESTIMONY?

A. For the water division the Company proposes a total revenue requirement of

$432,967, which constitutes an increase in revenues of $226,783, or 109.99 percent over adjusted test year revenues. For the wastewater division, the Company proposes a total revenue requirement of $328,900 which constitutes an increase in revenues of $209,436, or 175.31 percent over adjusted test year revenues.

Q. HOW DO THESE COMPARE WITH THE COMPANY'S DIRECT FILING?

A. In the direct filing, the Company requested a total revenue requirement of $436,451 for the water division, which required an increase in revenues of $228,447, or 109.83 percent. Also in the direct filing, the Company requested a total revenue requirement of $318,044 for the wastewater division, which required an increase in revenues of $196,760, or 162.23 percent.

Q. WHAT'S DIFFERENT?

A. In its rebuttal filing, USLLC has adopted a number of rate base and revenue/expense adjustments recommended by Staff, as well as proposed a number of adjustments of its own based on known and measurable changes to the test year.

For the water division, the net result of these adjustments is the Company's proposed operating expenses have decreased by $4,200, from $216,269 in the direct filing to $212,069; and a net increase of $8,652 in rate base from the direct filing of $1,566,542 to $1,575,194.

For the wastewater division, the net result of these adjustments is the Company's proposed operating expenses have increased by $9,264, from $193,541 in the direct filing to $202,805; and a net decrease of $5,089 in rate base from the direct filing of $830,945 to $825,856.

The Company continues to recommend an 11.0 percent return on equity. Based on a capital structure consisting of 100 percent equity and 0 percent debt, the Company recommends a weighted cost of capital and return on its fair value rate base ("FVRB") of 11.0 percent. I discuss the Company proposed return on equity, cost of debt, and capital structure in my separate rebuttal cost of capital testimony.

Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE OF THE PROCEEDING?

A. For the water division, the proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$436,451	$228,447	109.83%
Staff	$406,372	$200,188	97.09%
RUCO	$363,609	$155,605	74.81%
Company Rebuttal	$432,967	$226,783	109.99%

For the wastewater division, the proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$318,044	$196,760	162.23%
Staff	$315,314	$195,850	163.94%
RUCO	$285,358	$164,074	135.28%
Company Rebuttal	$328,900	$209,436	175.31%

III. RATE BASE

A. Water Division Rate Base

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS FOR THE WATER DIVISION?

A. Yes, for the water division the rate bases proposed by the parties proposing a rate base in the case, the Company, Staff and RUCO, are as follows:

	OCRB	FVRB
Company-Direct	$1,566,542	$1,566,542
Staff	$1,594,961	$1,594,961
RUCO	$1,566,542	$1,566,542
Company Rebuttal	$1,575,194	$1,575,194

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE FOR THE WATER DIVISION?

A. Yes. The Company's rebuttal rate base adjustments to the water division's OCRB are detailed on rebuttal schedules B-2, pages 3 through 6. Rebuttal Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rebuttal OCRB.

1. Plant-in-service (PIS)

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company is not proposing any additional adjustments to the water division PIS balance. The Company recommends a PIS balance of $2,496,640. Staff and RUCO recommend the same PIS balance as the Company.[1]

[1] *See* Staff Water Division Schedule JLK-W3 and RUCO Water Division Schedule JMM-2.

2. <u>Accumulated Depreciation (A/D)</u>

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE WATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2, consists of one adjustment labeled as "A" on Rebuttal Schedule B-2, page 4.

Adjustment A reflects a correction to the A/D balance for account 311 – Electric Pumping Equipment. The A/D balance was greater than the original cost by $9,919 and this adjustment corrects the A/D balance to equal the original cost balance. RUCO and Staff do not propose a similar adjustment to correct the A/D balance.

Q. DOES STAFF AND/OR PROPOSE AN ADJUSTMENT TO THE A/D BALANCE?

A. Yes. Staff proposed to reduce the A/D balance by $49,456 reflecting additional depreciation on Deep Well No. 4.[2] RUCO does not propose any adjustments to A/D.[3]

Q. PLEASE RESPOND TO STAFF'S ASSERTION (AT PAGE 8 OF MR. KELLER'S TESTIMONY) THAT THE COMPANY DID NOT SUPPORT THE BASIS OR THE METHOD FOR THE A/D RELATED TO DEEP WELL NUMBER 4.

A. The Company did provide a detailed computation of the A/D related to Deep Well

[2] *See* Direct Testimony of Jorn L. Keller ("Keller Dt.") at 8.
[3] *See* Direct Testimony of Jeffery M. Michlk ("Michlik Dt.") at 8.

No. 4.[4] The Company does not believe an additional adjustment to A/D is required and disagrees with the Staff recommendation.

3. Contributions-in-aid of Construction (CIAC)

Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO THE WATER DIVISION'S CONTRIBUTIONS-IN-AID OF CONSTRUCTION AND ACCUMULASTED AMORTIZATION BALANCES.

A. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company reduces accumulated amortization by $1,267. This adjustment reflects a change to the composite deprecation rate for the test year and is related to the correction of the A/D balance discussed at page 5.

Q. DOES STAFF AND/OR RUCO PROPOSE AN ADJUSTMENT TO CIAC OR ACCUMULATED AMORTIZATION?

A. Yes. Staff proposed to reduce the accumulated amortization balance by $20,937 balance which reflects a 2.898 percent amortization rate for the years since the last rate case and through the end of the test year.[5] RUCO does not propose any adjustments to CIAC or accumulated amortization.[6]

Q. HOW DID STAFF DETERMINE THE 2.898 PERCENT AMORTIZATION RATE FOR USE IT RECONSTRUCTING THE ACCUMULATED AMORTIZATION BALANCE?

A. I am not sure. Staff does not explain its amortization rate.[7] However, it appears to be the CIACC amortization rate used by the Company is its annualization ot test year depreciation expense.[8]

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[4] *See* USLLC Direct Schedule B-2, page 4.1.
[5] Keller Dt. at 9.
[6] Michlik Dt. at 9.
[7] Keller Dt. at 9.
[8] *See* USLLC Water Division Direct Schedule C-2, page 2.

Q. IS IT CUSTOMARY TO USE THE COMPOSITE DEPRECIATION RATE USED TO ANNUALIZE THE TEST YEAR DEPRECIATION EXPENSE WHEN RECONSTRUCTING ACCUMULATED AMORTIZATION?

A. No. I have always reconstructed the amortization balance using the composite depreciation rate for each year.[9] In my experience, Staff also uses the composite depreciation rate for each year to compute the amortization for that year. I am somewhat confused by the Staff testimony regarding the Staff testimony given that Staff appears to be deviating from its typical practice regarding CIAC amortization. I am also confused because Staff did not use the amortization rate used in annualizing the wastewater division's depreciation expense to reconstruct the wastewater's accumulated amortization balance.

B. <u>Wastewater Division Rate Base</u>

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS FOR THE WATER DIVISION?

A. Yes, for the water division the rate bases proposed by the parties proposing a rate base in the case, the Company, Staff and RUCO, are as follows:

	OCRB	FVRB
Company-Direct	$830,945	$830,945
Staff	$825,880	$825,880
RUCO	$830,945	$830,945
Company Rebuttal	$825,856	$825,856

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED

[9] *See* USLLC Water Division Rebuttal Schedule B-2, page 5.1. The exception is when the CIAC is tracked to a specific plant account(s). Under that circumstance the authorized depreciation rate(s) for the plant account(s) are used.

ORIGINAL COST RATE BASE FOR THE WATER DIVISION?

A. Yes. The Company's rebuttal rate base adjustments to the wastewater division's OCRB are detailed on rebuttal schedules B-2, pages 3 through 6. Rebuttal Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rebuttal OCRB.

1. <u>Plant-in-service (PIS)</u>

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WASTEWATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2, consists of one adjustment labeled as "A" on Rebuttal Schedule B-2, page 3.

Adjustment A reflects a reclassification of $421 of plant from account 340 – Furniture and Equipment to 340.1 – Computers and Software. The net impact on total PIS is zero. Staff proposed a similar adjustment. RUCO does not propose a similar adjustment.

2. <u>Accumulated Depreciation (A/D)</u>

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE WASTEWATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2, consists of one adjustment labeled as "A" on Rebuttal Schedule B-2, page 4.

Adjustment A reflects the adjustment to A/D for additional depreciation of $28 and it is related to the reclassification of plant as discussed in in B-2 adjustment 1A, above. The Company recommends an A/D balance of $455,092. Staff and RUCO do not propose a similar adjustment recommend same A/D balance of $455,064.[10]

3. <u>**Contributions-in-aid of Construction (CIAC)**</u>

Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO THE WASTEWATER DIVISION'S CONTRIBUTIONS-IN-AID OF CONSTRUCTION AND ACCUMULASTED AMORTIZATION BALANCES.

A. The Company is not proposing any additional adjustments to the wastewater division CIAC balance or the accumulated amortization balance. The Company recommends a CIAC balance of $197,193 and an accumulated amortization balance of $86,711 (net CIAC of $111,262). Staff and RUCO recommend the same balances as the Company.[11]

4. <u>**Customer Security Deposits**</u>

Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO CUSTOMER METER DEPOSITS?

A. Yes. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company proposes to increase Customer Security Deposits by $5,065. This adjustment reflects the adoption of the Staff recommended adjustment.[12] RUCO does not propose a similar adjustment.

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[10] *Id.*

[11] Keller Dt. at 10.

[12] Carlson Dt. at 19.

IV. INCOME STATEMENT

A. Water Division Revenue and Expenses

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company rebuttal adjustments for the water division are detailed on Rebuttal Schedule C-2, pages 1-12. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

Rebuttal adjustment number 1 reduces depreciation expense. The rebuttal proposed depreciation expense is lower than the direct filing by $624. The reduction is due to a correction of the CIAC amortization rate from 2.898 percent to 3.114 percent. In its direct filing, the Company failed to remove the fully depreciated plant associated with account 311 – Electric Pumping Equipment totaling $158,711 from the computation of the depreciable plant balance used in computing the amortization rate.[13]

Q. DOES STAFF AND/OR RUCO PROPOSE ADJUSTMENT TO DEPRECIATION EXPENSE?

A. Yes. RUCO proposed the same adjustment to depreciation expense as does the Company.[14] Both the Company and RUCO compute the essentially the same amortization rate (3.114 percent for the Company and 3.11 percent for RUCO).[15] Staff proposed to reduce depreciation expense by $1,097.[16] However, Staff uses an

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[13] Compare USLLC Water Division Direct Schedule C-2, page2 and USLLC Water Division Rebuttal Schedule C-2, page 2.

[14] Michlik Dt. at 9 and RUCO Water Division Schedule JMM-7.

[15] Compare USLLC Water Division Rebuttal Schedule C-2, page2 and RUCO Water Division Schedule JMM-7.

[16] Keller Dt. at 11.

incorrectly computed amortization rate in in computation of annualized depreciation expense. Staff computes an amortization rate of 3.27 percent[17] which is incorrect because Staff does not recognize only depreciable plant in its computation.

Rebuttal adjustment number 2 reduces property tax expense and reflects the rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement on the method of computing property taxes. This method utilizes the ADOR formula and inputs two years of adjusted revenues plus one year of proposed revenues. I computed the property taxes based on the Company's proposed revenues, and then used the property tax rate and assessment ratio that was used in the direct filing.

Q. ARE THE PARTIES USING THE SAME TAX RATE AND ASSESSMENT RATIOS?

A. Yes. [18]

Q. THANK YOU. PLEASE CONTINUE.

A. Rebuttal adjustment number 3 increases rate case expense by $6,667 and reflect a reduction in the number of years to amortize rate case expense. This adjustment adopts the recommendation of Staff.[19] RUCO does not propose a similar adjustment.

Rebuttal adjustment number 4 reduces other water revenues by $1,850 and reflects the adoption of the Staff recommended adjustment.[20] RUCO does not propose a similar adjustment.

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[17] See Staff Water Division Schedule JLK-W10.

[18] *See* USLLC Water Division Rebuttal Schedule C-2, page 3; Staff Water Division Schedule JLK-W15; RUCO Water Division Schedule JMM-8.

[19] Keller Dt. at 14.

[20] *Id.* at 11.

Rebuttal adjustment number 5 reduces water testing expense by $6,637 and reflects the adoption of the Staff recommendation.[21] RUCO does not propose a similar adjustment.

Rebuttal adjustment number 6 reduces transportation expense by $1,750 for and reflects the adoption of the Staff recommendation.[22] RUCO does not propose a similar adjustment.

Rebuttal adjustment number 7 reduces miscellaneous expense by $2,366 for telephone related expenses and reflects the adoption of the Staff recommendation.[23] RUCO does not propose a similar adjustment.

Rebuttal adjustments number 8 through 10 are intentionally left blank.

Rebuttal adjustment 11 reflects the changes to income taxes at the Company's rebuttal proposed revenues and expenses.

Q. **DO ALL THE PARTIES RECOGNIZE INCOME TAXES?**

A. No. RUCO does not recognize any income taxes.[24]

Q. **DOES THE COMMISSION ALLOW RECOVERY OF INCOME TAXES FOR TAX PASS-THROUGH ENTITIES?**

A. Yes.[25]

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[21] *Id.*

[22] *Id.* at 13.

[23] *Id.* at 14.

[24] Michlik Dt. at 11.

[25] See Decision 73739, dated February 22, 2013.

B. Wastewater Division Revenue and Expenses

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WASTEWATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company rebuttal adjustments for the wastewater division are detailed on Rebuttal Schedule C-2, pages 1-12. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

Rebuttal adjustment number 1 increases depreciation expense by $48 and reflect the additional depreciation on plant due to the reclassification of plant discussed previously on page 8.

Q. DOES STAFF AND/OR RUCO PROPOSE ADJUSTMENT TO DEPRECIATION EXPENSE?

A. Yes. Staff proposes an increase to depreciation expense of $67.[26] The difference between the Company and Staff on depreciation expense is due to a difference in the computation of the amortization rate. However, Staff uses an incorrectly computed amortization rate in in computation of annualized depreciation expense. Staff computes an amortization rate of 3.87 percent[27] which is incorrect because Staff does not recognize only depreciable plant in its computation.

Rebuttal adjustment number 2 increases property tax expense and reflects the rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement on the method of computing property taxes. This method utilizes the ADOR formula and inputs two years of adjusted revenues plus one year of proposed revenues. I computed the property taxes based on the Company's proposed

[26] Keller Dt. at 18.

[27] See Staff Wastewater Division Schedule JLK-WW12.

revenues, and then used the property tax rate and assessment ratio that was used in the direct filing.

Q. ARE THE PARTIES USING THE SAME TAX RATE AND ASSESSMENT RATIOS?

A. Yes.[28]

Q. THANK YOU. PLEASE CONTINUE.

A. Rebuttal adjustment number 3 increases rate case expense by $6,667 and reflect a reduction in the number of years to amortize rate case expense. This adjustment adopts the recommendation of Staff.[29] RUCO does not propose a similar adjustment.

Rebuttal adjustment number 4 reduces other water revenues by $1,850 and reflects the adoption of the Staff recommended adjustment.[30] RUCO does not propose a similar adjustment.

Rebuttal adjustment number 5 reduces water testing expense by $6,637 and reflects the adoption of the Staff recommendation.[31] RUCO does not propose a similar adjustment.

Rebuttal adjustment number 6 reduces transportation expense by $1,750 for and reflects the adoption of the Staff recommendation.[32] RUCO does not propose a similar adjustment.

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[28] *See* USLLC Wastewater Division Rebuttal Schedule C-2, page 3; Staff Water Division Schedule JLK-WW14; RUCO Wastewater Division Schedule JMM-8.
[29] Keller Dt. at 14.
[30] *Id.* at 11.
[31] *Id.*
[32] *Id.* at 13.

Rebuttal adjustment number 7 reduces miscellaneous expense by $2,366 for telephone related expenses and reflects the adoption of the Staff recommendation.[33] RUCO does not propose a similar adjustment.

Rebuttal adjustments number 8 through 10 are intentionally left blank.

Rebuttal adjustment 11 reflects the changes to income taxes at the Company's rebuttal proposed revenues and expenses.

Q. DO ALL THE PARTIES RECOGNIZE INCOME TAXES?

A. No. RUCO does not recognize any income taxes.[34]

Q. DOES THE COMMISSION ALLOW RECOVERY OF INCOME TAXES FOR TAX PASS-THROUGH ENTITIES?

A. Yes.[35]

V. RATE DESIGN (H SCHEDULES).

A. Water Division

Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER SERVICE?

A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" Meter	$ 40.61
3/4" Meter	$ 40.61
1" Meter	$ 100.52
1 1/2" Meter	$ 203.04
2" Meter	$324.86
3" Meter	$649.72

[33] *Id.* at 14.
[34] Michlik Dt. at 11.
[35] See Decision 73739, dated February 22, 2013.

4" Meter		$1,015.19
6" Meter		$2,030.38
Gallons in minimum		0
COMMODITY RATES		
5/8"X3/4" –Res. & Com	1 to 4,000	$ 8.25
	4,001 to 9,000	$15.75
	Over 9,000	$21.75
3/4" – Res. & Com.	1 to 4,000	$ 8.25
	4,001 to 9,000	$15.75
	Over 9,000	$21.75
1" Meter – Res. & Com.	1 to 27,000	$15.75
	Over 27,000	$21.75
1 ½" Meter – Res. & Com.	1 to 57,000	$15.75
	Over 57,000	$21.75
2" Meter– Res. & Com.	1 to 94,000	$15.25
	Over 94,000	$21.75
3" Meter– Res. & Com.	1 to 195,000	$15.25
	Over 195,000	$21.75
4" Meter– Res. & Com.	1 to 309,000	$15.25
	Over 309,000	$21.75
6" Meter– Res. & Com.	1 to 615,000	$15.25
	Over 615,000	$21.75
Irrigation Meters	All gallons	$15.75
Standpipe/Bulk Water	All gallons	$21.75

Construction Meters	All gallons	$21.75

Q. WHAT WILL BE THE 5/8X3/4 INCH RESIDENTIAL CUSTOMER AVERAGE MONTHLY BILL UNDER THE NEW RATES?

A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a 3/4 inch residential customer using an average 4,123 gallons is $75.54 – a $36.96 increase over the present monthly bill or a 95.81 percent increase.

Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN FROM THE DIRECT FILING?

A. No.

Q. PLEASE COMMENT ON THE PROPOSED WATER RATE DESIGN OF STAFF AND RUCO.

A. Before I begin, the Staff proposed water rates do not produce the Staff recommended revenue requirement. The revenues produced are about 14,000 short. That said, the Staff rate design will lead to greater amounts of revenue erosion when conservation occurs than the Company's rate design. One reason for this higher revenue instability is that a greater portion the revenue requirement is recovered via the commodity rates under the Staff rate design than the Company rate design. Under the Staff design less than 33 percent of the revenue requirement is recovered from the monthly minimums whereas under the Company's rate design about 40 percent of the revenues are recovered from the monthly minimums. Another reason for the greater revenue stability is that under the Staff rate design more revenues are recovered from the higher commodity rates. About 48 percent of the revenue requirement is recovered from the two highest commodity rates under the Staff rate design while about 38 percent of the revenue requirement is recovered from the two highest commodity rates. When conservation occurs, the commodity revenues will decrease to a greater extent under the Staff rate design compared to the Company rate design.

Q. WHY IS THAT THE CASE?

A. When more revenues are expected to be recovered from the commodity rates, a greater amount of revenues are lost. This is because the commodity rates must necessarily be higher when a greater proportion of revenues are recovered from the commodity rates as opposed to the monthly minimums. With each gallon of water being priced at a higher cost, the dollar loss from each gallon lost means more revenues are lost. Additionally, since a much greater portion of the commodity revenues are recovered from the highest priced commodity rates under the Staff rate design than under the Company rate design it translates to more revenue instability.

Q. WHY DO THESE SCENARIOS INCREASE REVENUE INSTABILITY AND THE RISK OF REVENUE EROSION?

A. A loss of a gallon of water at the higher commodity rates means more revenue loss than the loss of a gallon of water at the lower commodity rate. The larger water users typically have the greatest amount of discretionary water and the greatest amount of conservation can be expected to occur from these customers as they will see the highest cost commodity rates.

Q. IF THE GOAL IS TO ACHIEVE CONSERVATION THEN WHY NOT CHARGE THESE CUSTOMERS AS MUCH AS POSSIBLE FOR THEIR WATER USE?

A. Conservation is not the only goal of a sound rate design. Equally important is ensuring the utility recovers its cost of service (revenue requirement), revenue stability. These two goals must be balanced (along with the goal of avoiding cost of service inequities).[36] The Company's proposed rate design promotes conservation by charging the higher water users more per unit of water than the low water users. The higher cost of water sends a conservation pricing signal to the higher water users. This is consistent with the approach the Commission has taken on rate design for more than a decade now, at least in my experience.

On the other hand, the Company's rate design provides for more revenue stability by providing a better balance of revenue recovery between the monthly minimums and the commodity rates. Further, with respect to the commodity revenues the Company's rate design provides a better balance of revenue recovery across all the commodity rates.

Q. WHAT DO YOU MEAN BY A BETTER BALANCE ACROSS THE COMMODITY RATES?

A. Balance refers to how evenly the commodity revenue is recovered between the lowest priced commodity rate and the highest priced commodity rates. Setting the higher commodity rates too high and recovering a greater amount of revenue from the higher commodity rates leads to the loss of a greater amount of revenue when conservation occurs.

Q. DO YOU HAVE SIMILAR REVENUE STABILITY CONCERNS WITH RUCO'S PROPOSED RATE DESIGN?

A. Yes. RUCO's rate design recovers about 35 percent of revenues from the monthly minimums which is significantly lower than the Company's recovery at about 40 percent. Further, like the Staff rate design, a greater portion of the revenue requirement is recovered from the highest cost commodity rates. RUCO's rate design recovers about 40 percent of revenues from the two highest commodity

[36] Principles of Water Rates, Fees, and Charges. AWWA Manual M-1 Sixth Edition, American Water Works Association, p.4.

rates.

Q. **HOW DID THE COMPANY DETERMINE THE COMMODITY RATE FOR STANDPIPE WATER AND CONSTRUCTION WATER?**

A. The Company followed the typical and customary practice of setting the commodity rate to the highest cost commodity rate. Standpipe and construction water customers do not pay a monthly minimum and purchased small quantities if water which is inefficient and more costly. These customers should pay more for water than a regular customer.

1. Other Tariff Changes.

Q. **IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND STAFF ON THE COMPANY'S PROPOSED METER AND SERVICE LINE INSTALLATION CHARGES?**

A. No. The Company and Staff are in agreement.

Q. **IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND STAFF ON THE COMPANY'S PROPOSED MISCELLANEOUS CHARGES?**

A. No.

B. <u>Wastewater Division</u>

Q. **WHAT ARE THE COMPANY'S PROPOSED RATES FOR WASTEWATER SERVICE?**

A. The Company's proposed rates are:

MONTHLY CHARGE

5/8" x 3/4" Meter	$ 53.00
3/4" Meter	$ 53.00
1" Meter	$132.50

1 1/2" Meter	$265.00
2" Meter	$424.00
3" Meter	$848.00
4" Meter	$1,325.00
6" Meter	$2,650.00

Rate per 1,000 gallons of water use:

Residential	$ 5.31
Car washes, laundromats, commercial, manufacturing	$ 5.20
Hotels and motels	$ 6.97
Restaurants	$ 8.61
Industrial Laundries	$ 7.63
Waste Haulers	$155.79
Restaurant Grease	$136.32
Treatment Plant Sludge	$155.79
Treatment Plant Sludge	$486.85

Q. **WHAT WILL BE THE 3/4 INCH RESIDENTIAL CUSTOMER AVERAGE MONTHLY BILL UNDER THE NEW RATES?**

A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a 3/4 inch residential customer using an average 4,123 gallons is $74.91 – a $50.83 increase over the present monthly bill or a 211.13% increase.

Q. **HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN?**

A. No.

Q. **PLEASE COMMENT ON THE PROPOSED WASTEWATER RATE**

DESIGN OF STAFF AND RUCO.

A. The Staff proposed wastewater rate design does not include a usage charge for residential customers. Further, the usage charge for other classes of customers is $11.28. The Company disagrees with the Staff rate design because it does not distinguish between those customers who place more demands on the wastewater system because they use more water and/or because their wastewater is more costly to treat.

The RUCO proposed wastewater rate design does not include any monthly minimums. All of the wastewater revenues are recovered via usage charges. The Company disagrees with the RUCO rate design because it leads to higher revenue instability and can lead to wide fluctuations in monthly revenues (seasonality).

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

REBUTTAL SCHEDULES
WATER DIVISION

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.			Present Rates	Proposed Rates	Dollar Increase	Percent Increase
1	Fair Value Rate Base				$ 1,575,194	
2						
3	Adjusted Operating Income				(5,885)	
4						
5	Current Rate of Return				-0.37%	
6						
7	Required Operating Income				$ 173,271	
8						
9	Required Rate of Return				11.00%	
10						
11	Operating Income Deficiency				$ 179,157	
12						
13	Gross Revenue Conversion Factor				1.2658	
14						
15	Increase in Gross Revenue					
16	Requirement				$ 226,783	
17						
18	Adjusted Test Year Revenues				$ 206,184	
19	Increase in Gross Revenue Revenue Requirement				$ 226,783	
20	Proposed Revenue Requirement				$ 432,967	
21	% Increase				109.99%	
22						
23	**Customer**		**Present**	**Proposed**	**Dollar**	**Percent**
24	**Classification**		**Rates**	**Rates**	**Increase**	**Increase**
25	3/4 Inch	Residential	$ 159,301	$ 327,130	$ 167,829	105.35%
26	3/4 Inch	Commercial	322	811	490	152.32%
27	2 Inch	Commercial	38,120	89,877	51,757	135.78%
28	2 Inch	Irrigation	1,776	3,898	2,122	119.50%
29						
30	Bulk/Construction		3,482	7,339	3,856	110.74%
31						
32	Revenue Annualization		328	634	306	93.31%
33	**Subtotal**		$ 203,328	$ 429,689	$ 226,361	111.33%
34						
35	Other Water Revenues		3,441	3,441	-	0.00%
36	Reconciling Amount		(585)	(163)	422	-72.14%
37					-	0.00%
38	**Total of Water Revenues**		$ 206,184	$ 432,967	$ 226,783	109.99%
39						
40						
41	SUPPORTING SCHEDULES:					
42	B-1					
43	C-1					
44	C-3					
45	H-1					

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base		Fair Value Rate Base	
1					
2	Gross Utility Plant in Service	$	2,496,640	$	2,496,640
3	Less: Accumulated Depreciation		716,486		716,486
4					
5	Net Utility Plant in Service	$	1,780,154	$	1,780,154
6					
7	Less:				
8	Advances in Aid of Construction		-		-
9					
10	Contributions in Aid of Construction		294,745		294,745
11					
12	Accumulated Amortization of CIAC		(95,670)		(95,670)
13					
14	Customer Meter Deposits		5,885		5,885
15	Deferred Income Taxes & Credits		-		-
16					
17					
18					
19	Plus:				
20	Unamortized Finance				
21	Charges		-		-
22	Prepayments		-		-
23	Materials and Supplies		-		-
24	Allowance for Working Capital		-		-
25					
26					
27					
28	Total Rate Base	$	1,575,194	$	1,575,194
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40					
41					
42					
43	SUPPORTING SCHEDULES:				
44	B-2				
45	B-3				
46	B-5				
47	E-1				
48					
49					
50					
51					
52					

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at end of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 2,496,640	-	$ 2,496,640
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	726,406	(9,919)	716,486
7				
8				
9	Net Utility Plant			
10	in Service	$ 1,770,234		$ 1,780,154
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	294,745	-	294,745
18				
19	Accumulated Amortization of CIAC	(96,938)	1,267	(95,670)
20				
21	Customer Meter Deposits	5,885	0	5,885
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				
26	**Plus:**			
27	Unamortized Finance			
28	Charges	-	-	-
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				-
34	Total	$ 1,566,542		$ 1,575,194
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
46	B-2, pages 2			B-1
47	E-1			
48				
49				
50				

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

	Adjusted at end of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 Customer Security Deposits	5 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
Gross Utility Plant in Service	$ 2,496,640	-					$ 2,496,640
Less:							
Accumulated Depreciation	726,406		(9,919)				716,486
Net Utility Plant in Service	$ 1,770,234	$ -	$ 9,919	$ -	$ -	$ -	$ 1,780,154
Less:							
Advances in Aid of Construction	-						-
Contributions in Aid of Construction (CIAC)	294,745						294,745
Accumulated Amort of CIAC	(96,938)			1,267			(95,670)
Customer Meter Deposits	5,885						5,885
Accumulated Deferred Income Taxes	-						-
Plus:							
Unamortized Finance Charges	-						-
Prepayments	-						-
Materials and Supplies	-						-
Allowance for Cash Working Capital	-			-			-
Total	$ 1,566,542	$ -	$ 9,919	$ (1,267)	$ -	$ -	$ 1,575,194

SUPPORTING SCHEDULES:
B-2, pages 3-5
E-1

RECAP SCHEDULES:
B-1

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Adjusted Original Cost	A Adjustments to Reconcile Plant to Reconstruction	B Intentionally Left Blank	Adjustments C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Rebuttal Adjusted Original Cost
1									
2									
3									
4									
5									
6	301	Organization Cost	-	-					-
7	302	Franchise Cost	-	-					-
8	303	Land and Land Rights	210,000	-					210,000
9	304	Structures and Improvements	72,997	-					72,997
10	305	Collecting and Impounding Res.	-	-					-
11	306	Lake River and Other Intakes	-	-					-
12	307	Wells and Springs	1,353,539	-					1,353,539
13	308	Infiltration Galleries and Tunnels	-	-					-
14	309	Supply Mains	-	-					-
15	310	Power Generation Equipment	89,125	-					89,125
16	311	Electric Pumping Equipment	158,711	-					158,711
17	320	Water Treatment Equipment	5,487	-					5,487
18	320.1	Water Treatment Plant	-	-					-
19	320.2	Chemical Solution Feeders	-	-					-
20	330	Dist. Reservoirs & Standpipe	321,452	-					321,452
21	330.1	Storage tanks	-	-					-
22	330.2	Pressure Tanks	-	-					-
23	331	Trans. and Dist. Mains	161,632	-					161,632
24	333	Services	86,250	-					86,250
25	334	Meters	-	-					-
26	335	Hydrants	34,500	-					34,500
27	336	Backflow Prevention Devices	-	-					-
28	339	Other Plant and Misc. Equip.	-	-					-
29	340	Office Furniture and Fixtures	2,947	-					2,947
30	340.1	Computers and Software	-	-					-
31	341	Transportation Equipment	-	-					-
32	342	Stores Equipment	-	-					-
33	343	Tools and Work Equipment	-	-					-
34	344	Laboratory Equipment	-	-					-
35	345	Power Operated Equipment	-	-					-
36	346	Communications Equipment	-	-					-
37	347	Miscellaneous Equipment	-	-					-
38	348	Other Tangible Plant	-	-					-
39		Plant Held for Future Use	-	-					-
40		TOTALS	$ 2,496,640	$ -	$ -	$ -	$ -	$ -	$ 2,496,640
41									
42		Plant-in-Service per Books							$ 2,496,640
43									
44		Increase (decrease) in Plant-in-Service							$ -
45									
46		Adjustment to Plant-in-Service							$ -
47									
48		SUPPORTING SCHEDULES							
49		B-2, pages 3.1							
50									

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line No.	Acct. No.	Description	Recorded Orginal Cost	Removed Deep Well #4 Costs	Adjusted Original Cost	Plant Per Reconstruction	Difference
1	Reconciliation to Reconstructed Plant-in-Service						
2							
6	301	Organization Cost	-		-	-	-
7	302	Franchise Cost	-		-	-	-
8	303	Land and Land Rights	210,000		210,000	210,000	-
9	304	Structures and Improvements	81,748	(8,751)	72,997	72,997	-
10	305	Collecting and Impounding Res.	-		-	-	-
11	306	Lake River and Other Intakes	-		-	-	-
12	307	Wells and Springs	2,831,962	(1,478,423)	1,353,539	1,353,539	-
13	308	Infiltration Galleries and Tunnels	-		-	-	-
14	309	Supply Mains	-		-	-	-
15	310	Power Generation Equipment	89,125	(1,725)	87,400	87,400	-
16	311	Electric Pumping Equipment	158,711		158,711	158,711	-
17	320	Water Treatment Equipment	5,487		5,487	5,487	-
18	320.1	Water Treatment Plant	-		-	-	-
19	320.2	Chemical Solution Feeders	-		-	-	-
20	330	Dist. Reservoirs & Standpipe	321,452		321,452	321,452	-
21	330.1	Storage tanks	-		-	-	-
22	330.2	Pressure Tanks	-		-	-	-
23	331	Trans. and Dist. Mains	161,632		161,632	161,632	-
24	333	Services	86,250		86,250	86,250	-
25	334	Meters	-		-	-	-
26	335	Hydrants	34,500		34,500	34,500	-
27	336	Backflow Prevention Devices	-		-	-	-
28	339	Other Plant and Misc. Equip.	-		-	-	-
29	340	Office Furniture and Fixtures	4,672		4,672	4,672	-
30	340.1	Computers and Software	-		-	-	-
31	341	Transportation Equipment	-		-	-	-
32	342	Stores Equipment	-		-	-	-
33	343	Tools and Work Equipment	-		-	-	-
34	344	Laboratory Equipment	-		-	-	-
35	345	Power Operated Equipment	-		-	-	-
36	346	Communications Equipment	-		-	-	-
37	347	Miscellaneous Equipment	-		-	-	-
38	348	Other Tangible Plant	-		-	-	-
39		Plant Held for Future Use	-		-	-	-
40		TOTALS	$ 3,985,539	$ (1,488,899)	$ 2,496,640	$ 2,496,640	$ -
41							
42							
43	SUPPORTING SCHEDULE						
44	B-2, pages 3.2 - 3.8						
45							

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

				Per Decision 70140		2006								
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant at 12/31/2005	Accum. Deprec. At 12/31/2005	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-			-		-		-	-	-
2	302	Franchise Cost	0.00%	-	-			-		-		-	-	-
3	303	Land and Land Rights	0.00%	210,000	-			-		-		-	210,000	-
4	304	Structures & Improvements	3.33%	72,997	3,646			-		-		2,431	72,997	6,077
5	305	Collecting & Impounding Reservoirs	2.50%	-	-			-		-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-			-		-		-	-	-
7	307	Wells & Springs	3.33%	2,071,821	103,487			-		-		68,992	2,071,821	172,479
8	308	Infiltration Galleries	6.67%	-	-			-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-			-		-		-	-	-
10	310	Power Generation Equipment	5.00%	87,400	6,555			-		-		4,370	87,400	10,925
11	311	Pumping Equipment	12.50%	158,711	29,758			-		-		19,839	158,711	49,597
12	320	Water Treatment Equipment	3.33%	5,487	274			-		-		183	5,487	457
13	320.1	Water Treatment Plants	3.33%					-		-		-	-	-
14	320.2	Solution Chemical Feeders	20.00%					-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	321,452	10,704			-		-		7,136	321,452	17,841
16	330.1	Storage Tanks	2.22%					-		-		-	-	-
17	330.2	Pressure Tanks	5.00%					-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	147,200	4,416			-		-		2,944	147,200	7,360
19	333	Services	3.33%	86,250	4,308			-		-		2,872	86,250	7,180
20	334	Meters	8.33%	-	-			-		-		-	-	-
21	335	Hydrants	2.00%	34,500	1,035			-		-		690	34,500	1,725
22	336	Backflow Prevention Devices	6.67%	-	-			-		-		-	-	-
23	339	Other Plant & Misc Equipment	6.67%	-	-			-		-		-	-	-
24	340	Office Furniture & Equipment	6.67%	-	-			-		-		-	-	-
25	340.1	Computers & Software	20.00%					-		-		-	-	-
26	341	Transportation Equipment	20.00%	-	-			-		-		-	-	-
27	342	Stores Equipment	4.00%	-	-			-		-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-			-		-		-	-	-
29	344	Laboratory Equipment	10.00%	-	-			-		-		-	-	-
30	345	Power Operated Equipment	5.00%	-	-			-		-		-	-	-
31	346	Communication Equipment	10.00%	-	-			-		-		-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-			-		-		-	-	-
33	348	Other Tangible Plant	10.00%	-	-			-		-		-	-	-
34		Plant Held for Future Use						-		-		-	-	-
35														
36		TOTALS		3,185,818	164,185	-	-	-	-	-	-	109,456	3,195,818	273,641

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2007 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-		-		-	-	-
2	302	Franchise Cost	0.00%			-		-		-	-	-
3	303	Land and Land Rights	0.00%			-		-		-	210,000	-
4	304	Structures & Improvements	3.33%			-		-		2,431	72,997	8,508
5	305	Collecting & Impounding Reservoirs	2.50%			-		-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%			-		-		-	-	-
7	307	Wells & Springs	3.33%			-		-		68,992	2,071,821	241,471
8	308	Infiltration Galleries	6.67%			-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%			-		-		-	-	-
10	310	Power Generation Equipment	5.00%			-		-		4,370	87,400	15,295
11	311	Pumping Equipment	12.50%			-		-		19,839	158,711	69,436
12	320	Water Treatment Equipment	3.33%			-		-		183	5,487	640
13	320.1	Water Treatment Plants	3.33%			-		-		-	-	-
14	320.2	Solution Chemical Feeders	20.00%			-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-		-		7,136	321,452	24,977
16	330.1	Storage Tanks	2.22%			-		-		-	-	-
17	330.2	Pressure Tanks	5.00%			-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%			-		-		2,944	147,200	10,304
19	333	Services	3.33%			-		-		2,872	86,250	10,052
20	334	Meters	8.33%			-		-		-	-	-
21	335	Hydrants	2.00%			-		-		690	34,500	2,415
22	336	Backflow Prevention Devices	6.67%			-		-		-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-		-		-	-	-
24	340	Office Furniture & Equipment	6.67%			-		-		-	-	-
25	340.1	Computers & Software	20.00%			-		-		-	-	-
26	341	Transportation Equipment	20.00%			-		-		-	-	-
27	342	Stores Equipment	4.00%			-		-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-		-		-	-	-
29	344	Laboratory Equipment	10.00%			-		-		-	-	-
30	345	Power Operated Equipment	5.00%			-		-		-	-	-
31	346	Communication Equipment	10.00%			-		-		-	-	-
32	347	Miscellaneous Equipment	10.00%			-		-		-	-	-
33	348	Other Tangible Plant	10.00%			-		-		-	-	-
34		Plant Held for Future Use				-		-		-	-	-
35												
36		TOTALS		-	-	-	-	-	-	109,456	3,195,818	383,097

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.4
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2008 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-		-		-	-	-
2	302	Franchise Cost	0.00%			-		-		-	-	-
3	303	Land and Land Rights	0.00%			-		-		-	210,000	-
4	304	Structures & Improvements	3.33%	6,251		6,251		-		2,535	79,248	11,043
5	305	Collecting & Impounding Reservoirs	2.50%			-		-		-	-	-
6	306	Lake River Canal Intakes	2.50%			-		-		-	-	-
7	307	Wells & Springs	3.33%					-		68,992	2,071,821	310,462
8	308	Infiltration Galleries	6.67%			-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%			-		-		-	-	-
10	310	Power Generation Equipment	5.00%	1,725		1,725		-		4,413	89,125	19,708
11	311	Pumping Equipment	12.50%			-		-		19,839	158,711	89,275
12	320	Water Treatment Equipment	3.33%			-		-		183	5,487	822
13	320.1	Water Treatment Plants	3.33%			-		-		-	-	-
14	320.2	Solution Chemical Feeders	20.00%			-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-		-		7,136	321,452	32,113
16	330.1	Storage Tanks	2.22%			-		-		-	-	-
17	330.2	Pressure Tanks	5.00%			-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%			-		-		2,944	147,200	13,248
19	333	Services	3.33%			-		-		2,872	86,250	12,925
20	334	Meters	8.33%			-		-		-	-	-
21	335	Hydrants	2.00%			-		-		690	34,500	3,105
22	336	Backflow Prevention Devices	6.67%			-		-		-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-		-		-	-	-
24	340	Office Furniture & Equipment	6.67%	2,552		2,552		-		85	2,552	85
25	340.1	Computers & Software	20.00%			-		-		-	-	-
26	341	Transportation Equipment	20.00%			-		-		-	-	-
27	342	Stores Equipment	4.00%			-		-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-		-		-	-	-
29	344	Laboratory Equipment	10.00%			-		-		-	-	-
30	345	Power Operated Equipment	5.00%			-		-		-	-	-
31	346	Communication Equipment	10.00%			-		-		-	-	-
32	347	Miscellaneous Equipment	10.00%			-		-		-	-	-
33	348	Other Tangible Plant	10.00%			-		-		-	-	-
34		Plant Held for Future Use				-		-		-	-	-
35												
36		TOTALS		10,528	-	10,528	-	-	-	109,689	3,206,346	492,788

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.5
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009 Plant Additions (Per Books)	Plant Adjustments[1]	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-			-		-	-	-
2	302	Franchise Cost	0.00%			-			-		-	-	-
3	303	Land and Land Rights	0.00%			-			-		-	210,000	-
4	304	Structures & Improvements	3.33%			-			-		2,639	79,248	13,682
5	305	Collecting & Impounding Reservoirs	2.50%			-			-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%			-			-		-	-	-
7	307	Wells & Springs	3.33%	753,141		753,141			-		81,531	2,824,962	391,994
8	308	Infiltration Galleries	6.67%			-			-		-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-		-	-	-
10	310	Power Generation Equipment	5.00%			-			-		4,456	89,125	24,164
11	311	Pumping Equipment	12.50%			-			-		19,839	158,711	109,114
12	320	Water Treatment Equipment	3.33%			-			-		183	5,487	1,005
13	320.1	Water Treatment Plants	3.33%			-			-		-	-	-
14	320.2	Solution Chemical Feeders	20.00%			-			-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-			-		7,136	321,452	39,249
16	330.1	Storage Tanks	2.22%			-			-		-	-	-
17	330.2	Pressure Tanks	5.00%			-			-		-	-	-
18	331	Transmission & Distribution Mains	2.00%			-			-		2,944	147,200	16,192
19	333	Services	3.33%			-			-		2,872	86,250	15,797
20	334	Meters	8.33%			-			-		-	-	-
21	335	Hydrants	2.00%			-			-		690	34,500	3,795
22	336	Backflow Prevention Devices	6.67%			-			-		-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-			-		-	-	-
24	340	Office Furniture & Equipment	6.67%			-			-		170	2,552	255
25	340.1	Computers & Software	20.00%			-			-		-	-	-
26	341	Transportation Equipment	20.00%			-			-		-	-	-
27	342	Stores Equipment	4.00%			-			-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-			-		-	-	-
29	344	Laboratory Equipment	10.00%			-			-		-	-	-
30	345	Power Operated Equipment	5.00%			-			-		-	-	-
31	346	Communication Equipment	10.00%			-			-		-	-	-
32	347	Miscellaneous Equipment	10.00%			-			-		-	-	-
33	348	Other Tangible Plant	10.00%			-			-		-	-	-
34		Plant Held for Future Use				-			-		-	-	-
35													
36		TOTALS		753,141	-	753,141	-	-	-	-	122,461	3,959,487	615,247

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.6
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-			-		-	-	-
2	302	Franchise Cost	0.00%			-			-		-	-	-
3	303	Land and Land Rights	0.00%			-			-		-	210,000	-
4	304	Structures & Improvements	3.33%			-			-		2,639	79,248	16,321
5	305	Collecting & Impounding Reservoirs	2.50%			-			-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%			-			-		-	-	-
7	307	Wells & Springs	3.33%			-			-		94,071	2,824,962	486,065
8	308	Infiltration Galleries	6.67%			-			-		-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-		-	-	-
10	310	Power Generation Equipment	5.00%			-			-		4,456	89,125	28,621
11	311	Pumping Equipment	12.50%			-			-		19,839	158,711	128,953
12	320	Water Treatment Equipment	3.33%			-			-		183	5,487	1,188
13	320.1	Water Treatment Plants	3.33%			-			-		-	-	-
14	320.2	Solution Chemical Feeders	20.00%			-			-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-			-		7,136	321,452	46,386
16	330.1	Storage Tanks	2.22%			-			-		-	-	-
17	330.2	Pressure Tanks	5.00%			-			-		-	-	-
18	331	Transmission & Distribution Mains	2.00%			-			-		2,944	147,200	19,136
19	333	Services	3.33%			-			-		2,872	86,250	18,669
20	334	Meters	8.33%			-			-		-	-	-
21	335	Hydrants	2.00%			-			-		690	34,500	4,485
22	336	Backflow Prevention Devices	6.67%			-			-		-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-			-		-	-	-
24	340	Office Furniture & Equipment	6.67%			-			-		170	2,552	426
25	340.1	Computers & Software	20.00%			-			-		-	-	-
26	341	Transportation Equipment	20.00%			-			-		-	-	-
27	342	Stores Equipment	4.00%			-			-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-			-		-	-	-
29	344	Laboratory Equipment	10.00%			-			-		-	-	-
30	345	Power Operated Equipment	5.00%			-			-		-	-	-
31	346	Communication Equipment	10.00%			-			-		-	-	-
32	347	Miscellaneous Equipment	10.00%			-			-		-	-	-
33	348	Other Tangible Plant	10.00%			-			-		-	-	-
34		Plant Held for Future Use				-			-		-	-	-
35													
36		TOTALS		-	-	-	-	-	-	-	135,001	3,959,487	750,246

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.7
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-							
2	302	Franchise Cost	0.00%			-			-		-	-	-
3	303	Land and Land Rights	0.00%			-			-		-	-	-
4	304	Structures & Improvements	3.33%	2,500		2,500			-		-	210,000	-
5	305	Collecting & Impounding Reservoirs	2.50%			-			-		2,681	81,748	19,001
6	306	Lake, River, Canal Intakes	2.50%			-			-		-	-	-
7	307	Wells & Springs	3.33%	7,000		7,000			-		-	-	-
8	308	Infiltration Galleries	6.67%			-			-		94,188	2,831,962	580,253
9	309	Raw Water Supply Mains	2.00%			-			-		-	-	-
10	310	Power Generation Equipment	5.00%			-			-		-	-	-
11	311	Pumping Equipment	12.50%			-			-		4,456	89,125	33,077
12	320	Water Treatment Equipment	3.33%			-			-		19,839	158,711	146,792
13	320.1	Water Treatment Plants	3.33%			-			-		183	5,487	1,370
14	320.2	Solution Chemical Feeders	20.00%			-			-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-			-		-	-	-
16	330.1	Storage Tanks	2.22%			-			-		7,136	321,452	53,522
17	330.2	Pressure Tanks	5.00%			-			-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	14,432		14,432			-		-	-	-
19	333	Services	3.33%			-			-		3,088	161,632	22,224
20	334	Meters	8.33%			-			-		2,872	86,250	21,541
21	335	Hydrants	2.00%			-			-		-	-	-
22	336	Backflow Prevention Devices	6.67%			-			-		690	34,500	5,175
23	339	Other Plant & Misc Equipment	6.67%			-			-		-	-	-
24	340	Office Furniture & Equipment	6.67%			-			-		-	-	-
25	340.1	Computers & Software	20.00%			-			-		170	2,552	596
26	341	Transportation Equipment	20.00%			-			-		-	-	-
27	342	Stores Equipment	4.00%			-			-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-			-		-	-	-
29	344	Laboratory Equipment	10.00%			-			-		-	-	-
30	345	Power Operated Equipment	5.00%			-			-		-	-	-
31	346	Communication Equipment	10.00%			-			-		-	-	-
32	347	Miscellaneous Equipment	10.00%			-			-		-	-	-
33	348	Other Tangible Plant	10.00%			-			-		-	-	-
34		Plant Held for Future Use				-			-		-	-	-
35									-		-	-	-
36		TOTALS		23,932	-	23,932	-	-	-	-	135,303	3,983,419	885,551

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.8
Witness: Bouresse

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Plant Adjustments	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-			-			-	-	-
2	302	Franchise Cost	0.00%			-			-			-	-	-
3	303	Land and Land Rights	0.00%			-			-			-	210,000	-
4	304	Structures & Improvements	3.33%			-			-	(8,751)	(1,062)	2,722	72,997	20,662
5	305	Collecting & Impounding Reservoirs	2.50%			-			-			-	-	-
6	306	Lake, River, Canal Intakes	2.50%			-			-			-	-	-
7	307	Wells & Springs	3.33%			-			-	(1,478,423)	(293,372)	94,304	1,353,539	381,185
8	308	Infiltration Galleries	6.67%			-			-			-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-			-	-	-
10	310	Power Generation Equipment	5.00%			-			-	(1,725)	(388)	4,456	87,400	37,145
11	311	Pumping Equipment	12.50%			-			-			9,919	158,711	158,711
12	320	Water Treatment Equipment	3.33%			-			-			183	5,487	1,553
13	320.1	Water Treatment Plants	3.33%			-			-			-	-	-
14	320.2	Solution Chemical Feeders	20.00%			-			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-			-			7,136	321,452	80,658
16	330.1	Storage Tanks	2.22%			-			-			-	-	-
17	330.2	Pressure Tanks	5.00%			-			-			-	-	-
18	331	Transmission & Distribution Mains	2.00%			-			-			3,233	161,632	25,457
19	333	Services	3.33%			-			-			2,872	86,250	24,413
20	334	Meters	8.33%			-			-			-	-	-
21	335	Hydrants	2.00%			-			-			690	34,600	5,865
22	336	Backflow Prevention Devices	6.67%			-			-			-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-			-			-	-	-
24	340	Office Furniture & Equipment	6.67%	2,119		2,119			-			241	4,672	837
25	340.1	Computers & Software	20.00%			-			-			-	-	-
26	341	Transportation Equipment	20.00%			-			-			-	-	-
27	342	Stores Equipment	4.00%			-			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-			-			-	-	-
29	344	Laboratory Equipment	10.00%			-			-			-	-	-
30	345	Power Operated Equipment	5.00%			-			-			-	-	-
31	346	Communication Equipment	10.00%			-			-			-	-	-
32	347	Miscellaneous Equipment	10.00%			-			-			-	-	-
33	348	Other Tangible Plant	10.00%			-			-			-	-	-
34		Plant Held for Future Use				-			-			-	-	-
35														
36		TOTALS		2,119	-	2,119	-	-	-	(1,488,899)	(294,821)	125,757	2,498,640	716,486

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.						Adjustments			
1				A	B	C	D	E	
2									Rebuttal
3			Adjusted	Adjustments	Intentionally	Intentionally	Intentionally	Intentionally	Adjusted
4	Acct.		Accum.	To Reconcile Plant	Left	Left	Left	Left	Accum.
5	No.	Description	Depr.	To Reconstruction	Blank	Blank	Blank	Blank	Depr.
6	301	Organization Cost	-	-					-
7	302	Franchise Cost	-	-					-
8	303	Land and Land Rights	-	-					-
9	304	Structures and Improvements	20,662	-					20,662
10	305	Collecting and Impounding Res.	-	-					-
11	306	Lake River and Other Intakes	-	-					-
12	307	Wells and Springs	381,185	-					381,185
13	308	Infiltration Galleries and Tunnels	-	-					-
14	309	Supply Mains	-	-					-
15	310	Power Generation Equipment	37,145	-					37,145
16	311	Electric Pumping Equipment	168,630	(9,919)					158,711
17	320	Water Treatment Equipment	1,553	-					1,553
18	320.1	Water Treatment Plant	-	-					-
19	320.2	Chemical Solution Feeders	-	-					-
20	330	Dist. Reservoirs & Standpipe	60,658	-					60,658
21	330.1	Storage tanks	-	-					-
22	330.2	Pressure Tanks	-	-					-
23	331	Trans. and Dist. Mains	25,457	-					25,457
24	333	Services	24,413	-					24,413
25	334	Meters	-	-					-
26	335	Hydrants	5,865	-					5,865
27	336	Backflow Prevention Devices	-	-					-
28	339	Other Plant and Misc. Equip.	-	-					-
29	340	Office Furniture and Fixtures	837	-					837
30	340.1	Computers and Software	-	-					-
31	341	Transportation Equipment	-	-					-
32	342	Stores Equipment	-	-					-
33	343	Tools and Work Equipment	-	-					-
34	344	Laboratory Equipment	-	-					-
35	345	Power Operated Equipment	-	-					-
36	346	Communications Equipment	-	-					-
37	347	Miscellaneous Equipment	-	-					-
38	348	Other Tangible Plant	-	-					-
39			-	-					-
40		TOTALS	$ 726,406	$ (9,919)	$ -	$ -	$ -	$ -	$ 716,486
41									
42		Accumulated Depreciation per Books							$ 726,406
43									
44		Increase (decrease) in Accumulated Depreciation							$ (9,919)
45									
46		Adjustment to Accumulated Depreciation							$ (9,919)
47									
48		SUPPORTING SCHEDULES							
49		B-2, pages 4.1							
50		B-2, pages 4.2							

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - A

Exhibit
Rebuttal Schedule B-2
Page 4.1
Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Accumulated Depreciation	Adjusted Accumulated Depreciation	Accumulated Depreciation Per Plant Reconstruction	Difference
1		Reconcilation to Reconstructed Accumulated Depreciation				
2						
3						
4						
5						
6	301	Organization Cost	-	-	-	-
7	302	Franchise Cost	-	-	-	-
8	303	Land and Land Rights	-	-	-	-
9	304	Structures and Improvements	20,662	20,662	20,662	-
10	305	Collecting and Impounding Res.	-	-	-	-
11	306	Lake River and Other Intakes	-	-	-	-
12	307	Wells and Springs	381,185	381,185	381,185	-
13	308	Infiltration Galleries and Tunnels	-	-	-	-
14	309	Supply Mains	-	-	-	-
15	310	Power Generation Equipment	37,145	37,145	37,145	-
16	311	Electric Pumping Equipment	168,630	168,630	158,711	(9,919)
17	320	Water Treatment Equipment	1,553	1,553	1,553	-
18	320.1	Water Treatment Plant	-	-	-	-
19	320.2	Chemical Solution Feeders	-	-	-	-
20	330	Dist. Reservoirs & Standpipe	60,658	60,658	60,658	-
21	330.1	Storage tanks	-	-	-	-
22	330.2	Pressure Tanks	-	-	-	-
23	331	Trans. and Dist. Mains	25,457	25,457	25,457	-
24	333	Services	24,413	24,413	24,413	-
25	334	Meters	-	-	-	-
26	335	Hydrants	5,865	5,865	5,865	-
27	336	Backflow Prevention Devices	-	-	-	-
28	339	Other Plant and Misc. Equip.	-	-	-	-
29	340	Office Furniture and Fixtures	837	837	837	-
30	340.1	Computers and Software	-	-	-	-
31	341	Transportation Equipment	-	-	-	-
32	342	Stores Equipment	-	-	-	-
33	343	Tools and Work Equipment	-	-	-	-
34	344	Laboratory Equipment	-	-	-	-
35	345	Power Operated Equipment	-	-	-	-
36	346	Communications Equipment	-	-	-	-
37	347	Miscellaneous Equipment	-	-	-	-
38	348	Other Tangible Plant	-	-	-	-
39		Plant Held for Future Use	-			-
40		TOTALS	$ 726,406	$ 726,406	$ 716,486	$ (9,919)
41						
42						
43		SUPPORTING SCHEDULE				
44		B-2, pages 4.1				
45		B-2, pages 3.3 - 3.9				

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5.0
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

	Gross CIAC	Accumulated Amortization
Computed balance at end of test year	$ 294,745	$ 95,670
Adjusted balance at end of test year	$ 294,745	$ 96,938
Increase (decrease)	$ -	$ (1,267)
Adjustment to CIAC/AA CIAC	$ -	$ 1,267
Label	3a	3b

SUPPORTING SCHEDULES
E-1
B-2, page 5.1

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Contributions-in-aid of Construction (CIAC)

Exhibit
Rebuttal Schedule B-2
Page 5.1
Witness: Bourassa

Line No.			2006		2007		2008		2009	
1-2		Balance 12/31/2005	Additions	Balance 12/31/2006	Additions	Balance 12/31/2007	Additions	Balance 12/31/2008	Additions	Balance 12/31/2009
5	Gross CIAC	294,745		294,745		294,745		294,745		294,745
7	Amortization Decision No. 70140	16,207								
8	Amortization Rate			3.67%		3.67%		3.66%		3.27%
9	Amortization			10,817		10,817		10,788		9,638
10	Accumulated Amortization			27,024		37,841		48,629		58,267
12	Net CIAC	278,538	-	267,721	-	256,904	-	246,116	-	236,478

Line No.		2010		2011		2012	
17-18		Additions	Balance 12/31/2010	Additions	Balance 12/31/2011	Additions	Balance 12/31/2012
21	Gross CIAC		294,745	-	294,745	-	294,745
24	Amortization Rate		3.60%		3.59%		5.50%
25	Amortization		10,611		10,581		16,211
26	Accumulated Amortization		68,878		79,459		95,670
28	Net CIAC	-	225,867	-	215,286	-	199,075

Utility Source, LLC - Water Division		Exhibit
Test Year Ended December 31, 2012		Rebuttal Schedule B-2
Original Cost Rate Base Proforma Adjustments		Page 6.0
Adjustment 4		Witness: Bourassa
Customer Deposits		

Line No.		
4	Computed balance at end of test year	$ 5,885
6	Book balance at end of test year	$ 5,885
8	Increase (decrease)	$ -
19	SUPPORTING SCHEDULES	
20	Testimony	
21	Work papers	

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Cash Working Capital (1/8 of Allowance		
Operation and Maintenance Expense)	$	10,275
Pumping Power (1/24 of Pumping Power)		2,783
Purchased Water (1/24 of Purchased Water)		-
Prepaid Expenses		
Total Working Capital Allowance	$	13,058
Working Capital Requested	**$**	**-**

		Adjusted Test Year
Total Operating Expense	$	212,069
Less:		
Income Tax	$	(1,475)
Property Tax		7,464
Depreciation		57,091
Purchased Water		-
Pumping Power		66,787
Allowable Expenses	$	82,202
1/8 of allowable expenses	$	10,275

SUPPORTING SCHEDULES:
E-1

RECAP SCHEDULES:
B-1

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 202,743	$ -	$ 202,743	$ 226,783	$ 429,526
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	5,261	(1,820)	3,441		3,441
5		$ 208,004	$ (1,820)	$ 206,184	$ 226,783	$ 432,967
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Water	-	-	-		-
9	Purchased Power	66,787	-	66,787		66,787
10	Fuel For Power Production	-	-	-		-
11	Chemicals	1,460	-	1,460		1,460
12	Materials and Supplies	12,257	-	12,257		12,257
13	Office Supplies and Expense	2,399	-	2,399		2,399
14	Contractual Services - Accounting	20,253	-	20,253		20,253
15	Contractual Services - Professional	9,651	-	9,651		9,651
16	Contractual Services - Maintenance	-	-	-		-
17	Contractual Services - Other	-	-	-		-
18	Water Testing	8,107	(6,637)	1,470		1,470
19	Rents	-	-	-		-
20	Transportation Expenses	-	(1,750)	(1,750)		(1,750)
21	Insurance - General Liability	2,186	-	2,186		2,186
22	Insurance - Health and Life	-	-	-		-
23	Reg. Comm. Exp. - Other	-	-	-		-
24	Reg. Comm. Exp. - Rate Case	10,000	6,667	16,667		16,667
25	Miscellaneous Expense	19,976	(2,366)	17,610		17,610
26	Bad Debt Expense	-	-	-		-
27	Depreciation and Amortization Expense	57,728	(637)	57,091		57,091
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	7,530	(66)	7,464	2,737	10,201
30	Income Tax	(2,064)	590	(1,475)	44,890	43,415
31	**Total Operating Expenses**	$ 216,269	$ (4,200)	$ 212,069	$ 47,627	$ 259,696
32	**Operating Income**	$ (8,265)	$ 2,380	$ (5,885)	$ 179,157	$ 173,271
33	**Other Income (Expense)**					
34	Interest Income	-	-	-		-
35	Other income	-	-	-		-
36	Interest Expense	-	-	-		-
37	Other Expense	-	-	-		-
38		-	-	-		-
39	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
40	**Net Profit (Loss)**	$ (8,265)	$ 2,380	$ (5,885)	$ 179,157	$ 173,271
41						
42	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
43	C-1, page 2				A-1	
44	E-2					
45						

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.1
Witness: Bourassa

Line No.		LABEL>>>>> Test Year Adjusted Results	1 Depreciation	2 Property Taxes	3 Rate Case Expense	4 Revenue Adjustment	5 Water Testing	6 Auto Expense	7 Telephone Expense
1	**Revenues**								
2	Metered Water Revenues	$ 202,743							
3	Unmetered Water Revenues	-							
4	Other Water Revenues	5,261				(1,820)			
5		$ 208,004	$ -	$ -	$ -	$ (1,820)	$ -	$ -	$ -
6	**Operating Expenses**								
7	Salaries and Wages	$ -							
8	Purchased Water	-							
9	Purchased Power	66,787							
10	Fuel For Power Production	-							
11	Chemicals	1,460							
12	Materials and Supplies	12,257							
13	Office Supplies and Expense	2,399							
14	Contractual Services - Accounting	20,253							
15	Contractual Services - Professional	9,651							
16	Contractual Services - Maintenance	-							
17	Contractual Services - Other	-							
18	Water Testing	8,107					(6,637)		
19	Rents	-							
20	Transportation Expenses	-						(1,750)	
21	Insurance - General Liability	2,186							
22	Insurance - Health and Life	-							
23	Reg. Comm. Exp. - Other	-							
24	Reg. Comm. Exp. - Rate Case	10,000			6,667				
25	Miscellaneous Expense	19,976							(2,366)
26	Bad Debt Expense	-							
27	Deprec. and Amort. Exp.	57,728	(637)						
28	Taxes Other Than Income	-							
29	Property Taxes	7,530		(66)					
30	Income Tax	(2,064)							
31	**Total Operating Expenses**	$ 216,269	$ (637)	$ (66)	$ 6,667	$ -	$ (6,637)	$ (1,750)	$ (2,366)
32	**Operating Income**	$ (8,265)	$ 637	$ 66	$ (6,667)	$ (1,820)	$ 6,637	$ 1,750	$ 2,366
33	**Other Income (Expense)**								
34	Interest Income	-							
35	Other income	-							
36	Interest Expense	-							
37	Other Expense	-							
38		-							
39	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
40	**Net Profit (Loss)**	$ (8,265)	$ 637	$ 66	$ (6,667)	$ (1,820)	$ 6,637	$ 1,750	$ 2,366
41									
42	SUPPORTING SCHEDULES:								
43	C-2								
44	E-2								

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.2
Witness: Bourassa

Line No.		8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Income Taxes	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**							
2	Metered Water Revenues					$ 202,743	$ 226,783	$ 429,526
3	Unmetered Water Revenues					-		-
4	Other Water Revenues					3,441		3,441
5		$ -	$ -	$ -	$ -	$ 206,184	$ 226,783	$ 432,967
6	**Operating Expenses**							
7	Salaries and Wages					$ -		$ -
8	Purchased Water					-		-
9	Purchased Power					66,787		66,787
10	Fuel For Power Production					-		-
11	Chemicals					1,460		1,460
12	Materials and Supplies					12,257		12,257
13	Office Supplies and Expense					2,399		2,399
14	Contractual Services - Accounting					20,253		20,253
15	Contractual Services - Professional					9,651		9,651
16	Contractual Services - Maintenance					-		-
17	Contractual Services - Other					-		-
18	Water Testing					1,470		1,470
19	Rents					-		-
20	Transportation Expenses					(1,750)		(1,750)
21	Insurance - General Liability					2,186		2,186
22	Insurance - Health and Life					-		-
23	Reg. Comm. Exp. - Other					-		-
24	Reg. Comm. Exp. - Rate Case					16,667		16,667
25	Miscellaneous Expense					17,610		17,610
26	Bad Debt Expense					-		-
27	Deprec. and Amort. Exp.					57,091		57,091
28	Taxes Other Than Income					-		-
29	Property Taxes					7,464	2,737	10,201
30	Income Tax				590	(1,475)	44,890	43,415
31	**Total Operating Expenses**	$ -	$ -	$ -	$ 590	$ 212,069	$ 47,627	$ 259,696
32	**Operating Income**	$ -	$ -	$ -	$ (590)	$ (5,885)	$ 179,157	$ 173,271
33	**Other Income (Expense)**							
34	Interest Income					-		-
35	Other income					-		-
36	Interest Expense					-		-
37	Other Expense					-		-
38						-		-
39	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
40	**Net Profit (Loss)**	$ -	$ -	$ -	$ (590)	$ (5,885)	$ 179,157	$ 173,271
41								
42	SUPPORTING SCHEDULES:					RECAP SCHEDULES:		
43	C-2					C-1, page 1		
44	E-2							

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

	1 Depreciation Expense	2 Property Taxes	3 Rate Case Expense	4 Revenue Adjustment	5 Water Testing	6 Auto Expense	Subtotal
Revenues				(1,820)			(1,820)
Expenses	(637)	(66)	6,667		(6,637)	(1,750)	(2,423)
Operating Income	637	66	(6,667)	(1,820)	6,637	1,750	603
Interest Expense							
Other Income / Expense						-	-
							-
Net Income	637	66	(6,667)	(1,820)	6,637	1,750	603

Adjustments to Revenues and Expenses

	7 Telephone Expnese	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Income Taxes		Subtotal
Revenues							(1,820)
Expenses	(2,366)	-	-	-	590	-	(4,200)
Operating Income	2,366	-	-	-	(590)	-	2,380
Interest Expense							
Other Income / Expense							-
							-
Net Income	2,366	-	-	-	(590)	-	2,380

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Non-depreciable/ Fully Depreciated	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3							
4							
5	301	Organization Cost	-	-	-	0.00%	-
6	302	Franchise Cost	-	-	-	0.00%	-
7	303	Land and Land Rights	210,000	(210,000)	-	0.00%	-
8	304	Structures and Improvements	72,997		72,997	3.33%	2,431
9	305	Collecting and Impounding Res.	-		-	2.50%	-
10	306	Lake River and Other Intakes	-		-	2.50%	-
11	307	Wells and Springs	1,353,539		1,353,539	3.33%	45,073
12	308	Infiltration Galleries and Tunnels	-		-	6.67%	-
13	309	Supply Mains	-		-	2.00%	-
14	310	Power Generation Equipment	89,125		89,125	5.00%	4,456
15	311	Electric Pumping Equipment	158,711	(158,711)	-	12.50%	-
16	320	Water Treatment Equipment	5,487		5,487	3.33%	183
17	320.1	Water Treatment Plant	-		-	3.33%	-
18	320.2	Chemical Solution Feeders	-		-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	321,452		321,452	2.22%	7,136
20	330.1	Storage tanks	-		-	2.22%	-
21	330.2	Pressure Tanks	-		-	5.00%	-
22	331	Trans. and Dist. Mains	161,632		161,632	2.00%	3,233
23	333	Services	86,250		86,250	3.33%	2,872
24	334	Meters	-		-	8.33%	-
25	335	Hydrants	34,500		34,500	2.00%	690
26	336	Backflow Prevention Devices	-	-	-	6.67%	-
27	339	Other Plant and Misc. Equip.	-		-	6.67%	-
28	340	Office Furniture and Fixtures	2,947		2,947	6.67%	197
29	340.1	Computers and Software	-		-	20.00%	-
30	341	Transportation Equipment	-		-	20.00%	-
31	342	Stores Equipment	-		-	4.00%	-
32	343	Tools and Work Equipment	-		-	5.00%	-
33	344	Laboratory Equipment	-		-	10.00%	-
34	345	Power Operated Equipment	-		-	5.00%	-
35	346	Communications Equipment	-		-	10.00%	-
36	347	Miscellaneous Equipment	-		-	10.00%	-
37	348	Other Tangible Plant	-		-	10.00%	-
38		TOTALS	$ 2,496,640	$ (368,711)	$ 2,127,929		$ 66,270
39							
40					Gross CIAC	Amort. Rate	
41		Less: Amortization of Contributions			$ 294,745	3.1143%	$ (9,179)
42		Total Depreciation Expense					$ 57,091
43							
44		Adjusted Test Year Depreciation Expense					57,728
45							
46		Increase (decrease) in Depreciation Expense					(637)
47							
48		Adjustment to Revenues and/or Expenses					$ (637)
49							
50		SUPPORTING SCHEDULE					
51		B-2, page 3					

*Fully Depreciated

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule
Page 3
Witness: Bourass

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 206,184	$ 206,184
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	412,368	412,368
4	Company Recommended Revenue	206,184	432,967
5	Subtotal (Line 4 + Line 5)	618,552	845,336
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	206,184	281,779
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	412,368	563,557
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	412,368	563,557
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	82,474	112,711
15	Composite Property Tax Rate - Obtained from ADOR	9.0503%	9.0503%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 7,464	$ 10,201
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 7,464	
19	Test Year Property Taxes	$ 7,530	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	$ (66)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 10,201
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 7,464
24	Increase in Property Tax Due to Increase in Revenue Requirement		$ 2,737
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 2,737
27	Increase in Revenue Requirement		$ 226,783
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.20671%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Rate Case Expense

Line No.			
1			
2			
3	Estimated Rate Case Expense	$	50,000
4			
5	Estimated Amortization Period in Years		3
6			
7	Annual Rate Case Expense	$	16,667
8			
9	Adjusted Test Year Rate Case Expense	$	10,000
10			
11	Increase(decrease) Rate Case Expense	$	6,667
12			
13	Adjustment to Revenue and/or Expense	$	6,667
14			
15			
16	Reference		
17	Testimony		
18			
19			
20			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Revenue Adjustment

Line No.			
1			
2	Revenue Adjustment	$	(1,820)
3			
4			
5			
6	Total Revenue from Annualization	$	(1,820)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(1,820)
10			
11	Reference		
12	Staff Adjustment # 1		
13			
14			
15			
16			
17			
18			
19			
20			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
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Witness: Bourassa

Water Testing

Line No.			
2	Staff Recommended Water Testing Expense	$	1,470
4	Adjuste Test Year Water Testing Expense	$	8,107
6	Adjustment to purchased power expense (rounded)	$	(6,637)
9	Adjustment to Revenue and/or Expense		(6,637)
11	Reference		
12	Staff Adjustment #3		

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

Auto Expense

Line No.			
2	Test Year Auto Expense	$	1,500
4	Staff Recommended Auto Expense		3,250
6	Adjustment to Revenues	$	(1,750)
9	Adjustment to Revenue and/or Expense		(1,750)
11	Reference		
12	Staff Adjustment #4		

Utility Source. LLC - Water Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

Telephone Expense

Line No.			
1			
2	Staff Recommended Telephone Expense	$	2,366
3			
4	Adjusted Test Year Telephone Expense		4,732
5			
6	Adjustment to Revenues	$	(2,366)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(2,366)
10			
11	Reference		
12	Staff Adjustment #5		
13			
14			
15			
16			
17			
18			
19			
20			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
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Witness: Bourassa

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Line
No.

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 9

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Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 11

Exhibit
Rebuttal Schedule C-2
Page 12
Witness: Bourassa

Income Taxes

	Test Year at Present Rates	Test Year at Proposed Rates
Compauted Income Tax	$ (1,475)	$ 43,415
Test Year Income tax Expense	(2,064)	(1,475)
Adjustment to Income Tax Expense	$ 590	$ 44,890

SUPPORTING SCHEDULE
C-3, page 2

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Description	Percentage of Incremental Gross Revenues
Combined Federal and State Effective Income Tax Rate	20.036%
Property Taxes	0.965%
Total Tax Percentage	21.001%
Operating Income % = 100% - Tax Percentage	78.999%
$\frac{1}{\text{Operating Income \%}}$ = Gross Revenue Conversion Factor	1.2658

SUPPORTING SCHEDULES:
C-3, page 2

RECAP SCHEDULES:
A-1

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollecible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.0009%					
5	Subtotal (L3 - L4)	78.9991%					
6	Revenue Conversion Factor (L1 / L5)	1.265838					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	20.0360%					
9	One Minus Combined Income Tax Rate (L7 - L8)	79.9640%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	3.1527%					
14	Federal Taxable Income (L12 - L13)	96.8473%					
15	Applicable Federal Income Tax Rate (L55 Col F)	17.4329%					
16	Effective Federal Income Tax Rate (L14 x L15)	16.8833%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		20.0360%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	20.0360%					
20	One Minus Combined Income Tax Rate (L18-L19)	79.9640%					
21	Property Tax Factor	1.2067%					
22	Effective Property Tax Factor (L20*L21)		0.9649%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.0009%			
24	Required Operating Income	$ 173,271					
25	AdjustedTest Year Operating Income (Loss)	$ (5,885)					
26	Required Increase in Operating Income (L24 - L25)		$ 179,157				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	$ 43,415					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	$ (1,475)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 44,890				
30	Recommended Revenue Requirement	$ 432,967					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -					
33	Adjusted Test Year Uncollectible Expense	$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ -				
35	Property Tax with Recommended Revenue	$ 10,201					
36	Property Tax on Test Year Revenue	$ 7,464					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 2,737				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 226,783				

Line No.	Description	(A) Test Year Total	(B)	(C) Water	(D) Company Recommended Total	(E)	(F) Water
	Calculation of Income Tax:						
39	Revenue	$ 206,184		$ 206,184	$ 432,967		$ 432,967
40	Operating Expenses Excluding Income Taxes	213,544		213,544	216,281		216,281
41	Synchronized Interest (L47)	-		-	-		-
42	Arizona Taxable Income (L39 - L40 - L41)	$ (7,360)		$ (7,360)	$ 216,687		$ 216,687
43	Arizona State Effective Income Tax Rate (see work papers)	3.1527%		3.1527%	3.1527%		3.1527%
44	Arizona Income Tax (L42 x L43)	$ (232)		$ (232)	$ 6,831		$ 6,831
45	Federal Taxable Income (L42- L44)	$ (7,128)		$ (7,128)	$ 209,855		$ 209,855
46	Federal Tax Rate	17.4329%		17.4329%	17.4329%		17.4329%
47	Federal Tax	$ (1,243)		$ (1,243)	$ 36,584		$ 36,584
48							
49							
50							
51							
52							
53	Total Federal Income Tax	$ (1,243)		$ (1,243)	$ 36,584		$ 36,584
54	Combined Federal and State Income Tax (L35 + L42)	$ (1,475)		$ (1,475)	$ 43,415		$ 43,415
55	<u>COMBINED</u> Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]				17.4329%		
56	<u>WASTEWATER</u> Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]					0.0000%	
57	<u>WATER</u> Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45]						17.4329%

Line No.	*Calculation of Interest Synchronization:*	Wastwater	Water
58	Rate Base	$ 1,575,194	$ 1,575,194
59	Weighted Average Cost of Debt	0.0000%	0.0000%
60	Synchronized Interest (L59 X L60)	$ -	$ -

Utility Source, LLC - Water Division
Revenue Summary
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	3/4 Inch	Residential	$ 159,301	$ 327,130	$ 167,829	105.35%	77.26%	75.56%
2	3/4 Inch	Commercial	322	811	490	152.32%	0.16%	0.19%
3	2 Inch	Commercial	38,120	89,877	51,757	135.78%	18.49%	20.76%
4	2 Inch	Irrigation	1,776	3,898	2,122	119.50%	0.86%	0.90%
5								
6	Bulk/Construction		3,482	7,339	3,856	110.74%	1.69%	1.69%
7								
8								
9	**Subtotals of Revenues**		$ 203,001	$ 429,056	$ 226,055	111.36%	98.46%	99.10%
10	**Revenue Annualizations:**							
11	3/4 Inch	Residential	$ 328	$ 634	$ 306	93.31%	0.16%	0.15%
12								
13								
14								
15	Bulk/Construction		-	-	-	0.00%	0.00%	0.00%
16	**Subtotal Revenue Annualization**		328	634	306	93.31%	0.16%	0.31%
17								
18	**Total Revenues w/ Annualization**		$ 203,328	$ 429,689	$ 226,361	111.33%	98.61%	99.24%
19	**Misc Revenues, as adjusted**		3,441	3,441	-	0.00%	1.67%	0.79%
20	**Reconciling Amount**		(585)	(163)	422	-72.14%	-0.28%	-0.04%
21	**Total Revenues**		$ 206,184	$ 432,967	$ 226,783	109.99%	100.00%	100.00%
22								
23								

Utility Source, LLC - Water Division
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		(a) Average Number of Customers at 12/31/2012	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	3/4 Inch	Residential	320	4,123	$ 38.58	$ 75.54	$ 36.96	95.81%	98.16%
2	3/4 Inch	Commercial	1	1,667	26.50	66.86	40.36	152.30%	0.31%
3	2 Inch	Commercial	3	115,286	1,004.10	2,268.34	1,264.24	125.91%	0.92%
4	2 Inch	Irrigation	1	-	$ 148.00	$ 324.86	$ 176.86	119.50%	0.31%
5									
6	Construction/Bulk		1	26,251	290.19	611.56	321.36	110.74%	0.31%
7									
8									
9									
10									
11									
12	Totals		326						100.00%
13									
14	Actual Year End Number								
15	of Customers:		327						
16									
17									
18									
19									

Docekt No. WS-04235A-13-0331

Utility Source, LLC - Water Division
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-2
Page 2
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		(a) Average Number of Customers at 12/31/2012	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	3/4 Inch	Residential	320	3,500	$ 35.30	$ 69.48	$ 34.18	96.83%	98.16%
2	3/4 Inch	Commercial	1	1,500	$ 25.70	$ 64.23	38.53	149.93%	0.31%
3	2 Inch	Commercial	3	65,000	613.40	1,348.61	735.21	119.86%	0.92%
4	2 Inch	Irrigation	1	-	$ 148.00	$ 324.86	$ 176.86	119.50%	0.31%
5									
6	Construction/Bulk		1	40,501	437.69	921.50	483.82	110.54%	0.31%
7									
8									
9									
10									
11	Totals		326						100.00%
12									
13	Actual Year End Number								
14	of Customers:		327						
15									
16									
17									
18									

Utility Source, LLC - Water Division
Revenue Breakdown Summary
Present Rates

Exhibit
Rebuttal Schedule H-2
Page 3
Witness: Bourassa

		Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
3/4 Inch	Residential	$ 71,262	$ 54,684	$ 23,774	$ 9,908	$ 159,629
3/4 Inch	Commercial	$ 222	$ 89	$ 11	$ -	$ 322
2 Inch	Commercial	$ 5,328	$ 14,424	$ 18,368	$ -	$ 38,120
2 Inch	Irrigation	$ 1,776	$ -	$ -	$ -	$ 1,776
Construction/Bulk		$ 222	$ 3,260	$ -	$ -	$ 3,482
	TOTALS	$ 78,810	$ 72,457	$ 42,153	$ 9,908	$ 203,328
	Percent of Total	38.76%	35.64%	20.73%	4.87%	100.00%
	Cummulative %	38.76%	74.40%	95.13%	100.00%	

	Amount	% of Revenues
Monthly Minimum Revenues	$ 78,810	38.76%
Commodity Revenues		
Lowest Commodity Rate	$ 54,773	26.94%
Middle Commodty Rate	$ 38,209	18.79%
Highest Commodity rate	$ 31,536	15.51%
Subtotal Commodity Revenues	$ 124,518	61.24%
Total Revenues	$ 203,328	100.00%

Utility Source, LLC - Water Division
Revenue Breakdown Summary
Proposed Rates

Exhibit
Rebuttal Schedule H-2
Page 4
Witness: Bourassa

		Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
3/4 Inch	Residential	$ 156,420	$ 93,988	$ 52,297	$ 25,059	$ 327,764
3/4 Inch	Commercial	$ 487	$ 291	$ 33	$ -	$ 811
2 Inch	Commercial	$ 11,695	$ 31,729	$ 46,454	$ -	$ 89,877
2 Inch	Irrigation	$ 3,898	$ -	$ -	$ -	$ 3,898
Construction/Bulk		$ 487	$ 6,851	$ -	$ -	$ 7,339
	TOTALS	$ 172,988	$ 132,860	$ 98,783	$ 25,059	$ 429,689
	Percent of Total	40.26%	30.92%	22.99%	5.83%	100.00%
	Cummulative %	40.26%	71.18%	94.17%	100.00%	

	Amount	% of Revenues
Monthly Minimum Revenues	$ 172,988	40.26%
Commodity Revenues		
Lowest Commodity Rate	$ 94,280	21.94%
Middle Commodty Rate	$ 84,058	19.56%
Highest Commodity rate	$ 78,364	18.24%
Subtotal Commodity Revenues	$ 256,701	59.74%
Total Revenues	$ 429,689	100.00%

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 1

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	Meter Size (All Classes):				
2	5/8x3/4 Inch	$ 18.50	$ 40.61	$ 22.11	119.50%
2	3/4 Inch	18.50	40.61	22.11	119.50%
3	1 Inch	46.50	101.52	55.02	118.32%
4	1 1/2 Inch	92.50	203.04	110.54	119.50%
5	2 Inch	148.00	324.86	176.86	119.50%
6	3 Inch	296.00	649.72	353.72	119.50%
7	4 Inch	462.50	1,015.19	552.69	119.50%
8	6 Inch	925.00	2,030.38	1,105.38	119.50%
9					
10					
11					
12	Gallons In Minimum (All Classes)	-	-		
13					

Line No.	Commodity Rates	Block	Present Rate (Per 1,000 gallons)	Proposed Rate (Per 1,000 gallons)
14				
15				
16				
17				
18	5/8x3/4 Inch (Residential, Commercial)	1 gallons to 4,000 gallons	$ 4.80	$ 8.25
19		4,001 gallons to 9,000 gallons	$ 7.16	$ 15.75
20		over 9,000 gallons	$ 8.60	$ 21.75
21				
22	3/4 Inch Meter (Residential, Commercial)	1 gallons to 4,000 gallons	$ 4.80	$ 8.25
23		4,001 gallons to 9,000 gallons	$ 7.16	$ 15.75
24		over 9,000 gallons	$ 8.60	$ 21.75
25				
26	1 Inch Meter (Residential, Commercial)	1 gallons to 27,000 gallons	$ 4.80	$ 15.75
27		over 27,000 gallons	$ 7.16	$ 21.75
28				
29	1.5 Inch Meter (Residential, Commercial)	Over Minimum up to 57,000 gallons	$ 4.80	$ 15.75
30		Over 57,000 gallons	$ 7.16	$ 21.75
31				
32	2 Inch Meter (Residential, Commercial)	1 gallons to 94,000 gallons	$ 4.80	$ 15.75
33		over 94,000 gallons	$ 7.16	$ 21.75
34				
35	3 Inch Meter (Residential, Commercial)	1 gallons to 195,000 gallons	$ 4.80	$ 15.75
36		over 195,000 gallons	$ 7.16	$ 21.75
37				
38				
39				
40	NT = No Tariff			
41				

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 2

Line No.			(Per 1,000 gallons) Present Rate	Proposed Rate
3	**Commodity Rates**	**Block**		
4	4 Inch Meter (Residential, Commercial)	1 gallons to 309,000 gallons	$ 4.80	$ 15.75
5		over 309,000 gallons	$ 7.16	$ 21.75
7	6 Inch Meter (Residential, Commercial)	1 gallons to 615,000 gallons	$ 4.80	$ 15.75
8		over 615,000 gallons	$ 7.16	$ 21.75
10	Irrigation Meters	All gallons	$ 9.26	$ 15.75
12	Standpipe or Bulk	All gallons	$ 10.35	$ 21.75
14	Construction	All gallons	$ 10.35	$ 21.75
42	Construction/Standpipe	All gallons	NT	$ 21.75
44	NT = No Tariff			

Utility Source, LLC - Water Division
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Meter and Service Line Charges[1]

	Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install-ation Charge	Total Proposed Charge
5/8 x 3/4 Inch	[redacted]		$ 520.00	$ 385.00	$ 135.00	$ 520.00
3/4 Inch			575.00	415.00	205.00	620.00
1 Inch			660.00	465.00	265.00	730.00
1 1/2 Inch			900.00	520.00	475.00	995.00
2 Inch Turbo			1,525.00	800.00	995.00	1,795.00
2 Inch, Compound			2,320.00	800.00	1,840.00	2,640.00
3 Inch Turbo			2,275.00	1,015.00	1,620.00	2,635.00
3 Inch, compound			3,110.00	1,135.00	2,495.00	3,630.00
4 Inch Turbo			3,360.00	1,430.00	2,570.00	4,000.00
4 Inch, compound			4,475.00	1,610.00	3,545.00	5,155.00
6 Inch Turbo			6,035.00	2,150.00	4,925.00	7,075.00
6 Inch, compound			8,050.00	2,270.00	6,820.00	9,090.00

[1] Based on ACC Staff Engineering Memo dated Feburary 21, 2008

Other Charges:

	Present	Proposed
Establishment	$ 20.00	$ 20.00
Establishment (After Hours)	$ 40.00	*Removed
Reconnection (Delinquent)	$ 50.00	$ 50.00
Reconnection (After hours)	$ 40.00	*Removed
Meter Test	$ 20.00	$ 20.00
Minimum Deposit Requirement	PER RULE	PER RULE
Deposit Interest	PER RULE	PER RULE
Re-establishment (Within 12 months)	PER RULE	PER RULE
NSF Check	$ 20.00	$ 20.00
Deferred Payment, per month	1.5%	1.5%
Meter Re-read	$ 10.00	$ 10.00
Late Charge	1.5%	1.5%
Customer requested Meter Test	$ 20.00	$ 20.00
After hours service charge	$ 40.00	$ 40.00
Moving Customer Meter (at customer request)	Cost	Cost

(a) $ 5.00 minimum or 1.5% of unpaid balance whichever is greater.
* After hours service charge will apply when service requested by customer after hours.

REBUTTAL SCHEDULES
WASTEWATER DIVISION

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.						
1	Fair Value Rate Base				$ 825,856	
2						
3	Adjusted Operating Income				(83,387)	
4						
5	Current Rate of Return				-10.10%	
6						
7	Required Operating Income				$ 90,844	
8						
9	Required Rate of Return				11.00%	
10						
11	Operating Income Deficiency				$ 174,232	
12						
13	Gross Revenue Conversion Factor				1.2021	
14						
15	Increase in Gross Revenue					
16	Requirement				$ 209,436	
17						
18	Adjusted Test Year Revenues				$ 119,464	
19	Increase in Gross Revenue Revenue Requirement				$ 209,436	
20	Proposed Revenue Requirement				$ 328,900	
21	% Increase				175.31%	
22						
23	**Customer**		**Present**	**Proposed**	**Dollar**	**Percent**
24	**Classification**		**Rates**	**Rates**	**Increase**	**Increase**
25	3/4 Inch	Residential	$ 92,479	$ 287,729	$ 195,250	211.13%
26	3/4 Inch	Commercial	114	740	626	547.81%
27	2 Inch	Commercial	23,698	36,829	13,131	55.41%
28					-	0.00%
29	Revenue Annualization		173	741	567	327.23%
30	**Subtotal**		$ 116,465	$ 326,039	$ 209,574	179.95%
31						
32	Other Water Revenues		3,441	3,441	-	0.00%
33	Reconciling Amount		(442)	(580)	(138)	31.22%
34	Rounding				-	0.00%
35	**Total of Water Revenues**		$ 119,464	$ 328,900	$ 209,436	175.31%
36						
37						
38	SUPPORTING SCHEDULES:					
39	B-1					
40	C-1					
41	C-3					
42	H-1					

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base		Fair Value Rate Base	
2	Gross Utility Plant in Service	$	1,397,271	$	1,397,271
3	Less: Accumulated Depreciation		455,092		455,092
5	Net Utility Plant in Service	$	942,179	$	942,179
7	Less:				
8	Advances in Aid of Construction		-		-
10	Contributions in Aid of Construction		197,973		197,973
12	Accumulated Amortization of CIAC		(86,715)		(86,715)
14	Customer Meter Deposits		5,065		5,065
15	Deferred Income Taxes & Credits		-		-
19	Plus:				
20	Unamortized Finance				
21	Charges		-		-
22	Prepayments		-		-
23	Materials and Supplies		-		-
24	Allowance for Working Capital		-		-
28	Total Rate Base	$	825,856	$	825,856

43 SUPPORTING SCHEDULES:
44 B-2
45 B-3
46 B-5
47 E-1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
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Witness: Bourassa

	Adjusted at end of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
Gross Utility Plant in Service	$ 1,397,271	-	$ 1,397,271
Less:			
Accumulated Depreciation	455,064	28	455,092
Net Utility Plant in Service	$ 942,207		$ 942,179
Less:			
Advances in Aid of Construction	-	-	-
Contributions in Aid of Construction - Gross	197,973	-	197,973
Accumulated Amortization of CIAC	(86,711)	(4)	(86,715)
Customer Meter Deposits	-	5,065	5,065
Accumulated Deferred Income Tax	-	-	-
			-
			-
Plus:			
Unamortized Finance Charges	-	-	-
Prepayments	-	-	-
Materials and Supplies	-	-	-
Working capital	-	-	-
			-
Total	$ 830,945		$ 825,856

SUPPORTING SCHEDULES:
B-2, pages 2
E-1

RECAP SCHEDULES:
B-1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
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Witness: Bourassa

			Proforma Adjustments					
Line No.		Adjusted at end of Test Year	1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 Customer Deposits	5 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 1,397,271	-					$ 1,397,271
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	455,064		28				455,092
7								
8								
9	Net Utility Plant							
10	in Service	$ 942,207	$ -	$ (28)	$ -	$ -	$ -	$ 942,179
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	197,973						197,973
18								
19	Accumulated Amort of CIAC	(86,711)			(4)			(86,715)
20								
21	Customer Meter Deposits	-				5,065		5,065
22	Accumulated Deferred Income Taxes	-						-
23								
24								
25	**Plus:**							
26	Unamortized Finance							
27	Charges	-						-
28	Prepayments	-						-
29	Materials and Supplies	-						-
30	Allowance for Cash Working Capital	-			-			-
31								
32	Total	$ 830,945	$ -	$ (28)	$ 4	$ (5,065)	$ -	$ 825,856
33								
34								
35								
36	SUPPORTING SCHEDULES:						RECAP SCHEDULES:	
37	B-2, pages 3-5						B-1	
38	E-1							
39								
40								

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
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Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Adjusted Original Cost	Adjustments A: Adjustments Required to Reconcile to Reconstruction	Adjustments B: Intentionally Left Blank	Adjustments C: Intentionally Left Blank	Adjustments D: Intentionally Left Blank	Adjustments E: Intentionally Left Blank	Rebuttal Adjusted Original Cost
1									
2									
3									
4									
5									
6	351	Organization Cost	-	-					-
7	352	Franchise Cost	-	-					-
8	353	Land and Land Rights	105,000	-					105,000
9	354	Structures & Improvements	56,350	-					56,350
10	355	Power Generation Equipment	2,879	-					2,879
11	360	Collection Sewers - Force	-	-					-
12	361	Collection Sewers - Gravity	260,553	-					260,553
13	362	Special Collecting Structures	-	-					-
14	363	Servcies to Customers	60,375	-					60,375
15	364	Flow Measuring Devices	-	-					-
16	365	Flow Measuring Installations	-	-					-
17	366	Reuse Services	3,450	-					3,450
18	367	Reuse Meters and Meter Installation:	-	-					-
19	370	Receiving Wells	-	-					-
20	371	Pumping Equipment	-	-					-
21	374	Reuse Distribution Reserviors	-	-					-
22	375	Reuse Transmission and Distributior	-	-					-
23	380	Treatment & Disposal Equipment	903,992	-					903,992
24	381	Plant Sewers	-	-					-
25	382	Outfall Sewer Lines	-	-					-
26	389	Other Plant & Misc Equipment	-	-					-
27	390	Office Furniture & Equipment	4,672	(421)					4,251
28	390.1	Computers & Software	-	421					421
29	391	Transportation Equipment	-	-					-
30	392	Stores Equipment	-	-					-
31	393	Tools, Shop & Garage Equipment	-	-					-
32	394	Laboratory Equipment	-	-					-
33	395	Power Operated Equipment	-	-					-
34	396	Communication Equipment	-	-					-
35	397	Miscellaneous Equipment	-	-					-
36	398	Other Tangible Plant	-						-
37		TOTALS	$ 1,397,271	$ (0)	$ -	$ -	$ -	$ -	$ 1,397,271
38									
39		Plant-in-Service per Books							$ 1,397,271
40									
41		Increase (decrease) in Plant-in-Service							$ -
42									
43		Adjustment to Plant-in-Service							$ -
44									
45		SUPPORTING SCHEDULES							
46		B-2, pages 3.1							
47									

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 -A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line No.					
1	Reconcilation to Reconstructed Plant-in-Service				
2					
3			Adjusted	Plant	
4	Acct.		Orginal	Per	Adjustment
5	No.	Description	Cost	Reconstruction	Required
6	351	Organization Cost	-	-	-
7	352	Franchise Cost	-	-	-
8	353	Land and Land Rights	105,000	105,000	-
9	354	Structures & Improvements	56,350	56,350	-
10	355	Power Generation Equipment	2,879	2,879	-
11	360	Collection Sewers - Force	-	-	-
12	361	Collection Sewers - Gravity	260,553	260,553	-
13	362	Special Collecting Structures	-	-	-
14	363	Servcies to Customers	60,375	60,375	-
15	364	Flow Measuring Devices	-	-	-
16	365	Flow Measuring Installations	-	-	-
17	366	Reuse Services	3,450	3,450	-
18	367	Reuse Meters and Meter Installatior	-	-	-
19	370	Receiving Wells	-	-	-
20	371	Pumping Equipment	-	-	-
21	374	Reuse Distribution Reserviors	-	-	-
22	375	Reuse Transmission and Distributio	-	-	-
23	380	Treatment & Disposal Equipment	903,992	903,992	-
24	381	Plant Sewers	-	-	-
25	382	Outfall Sewer Lines	-	-	-
26	389	Other Plant & Misc Equipment	-	-	-
27	390	Office Furniture & Equipment	4,672	4,251	(421)
28	390.1	Computers & Software	-	421	421
29	391	Transportation Equipment	-	-	-
30	392	Stores Equipment	-	-	-
31	393	Tools, Shop & Garage Equipment	-	-	-
32	394	Laboratory Equipment	-	-	-
33	395	Power Operated Equipment	-	-	-
34	396	Communication Equipment	-	-	-
35	397	Miscellaneous Equipment	-	-	-
36	398	Other Tangible Plant	-		-
37		TOTALS	$ 1,397,271	$ 1,397,271	$ (0)
38					
39					
40	SUPPORTING SCHEDULE				
41	B-2, pages 3.2 - 3.8				
42					

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Per Decision 70140 Plant at 12/31/2005	Per Decision 70140 Accum. Deprec. At 12/31/2005	2006 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-	-			-			-		-	-	-
2	352	Franchise	0.00%	-	-			-			-		-	-	-
3	353	Land	0.00%	105,000	-			-			-		-	105,000	-
4	354	Structures & Improvements	3.33%	56,350	2,815			-			-		1,876	56,350	4,691
5	355	Power Generation	5.00%	2,879	216			-			-		144	2,879	360
6	360	Collection Sewer Forced	2.00%	-	-			-			-		-	-	-
7	361	Collection Sewers Gravity	2.00%	260,553	7,817			-			-		5,211	260,553	13,028
8	362	Special Collecting Structures	2.00%	-	-			-			-		-	-	-
9	363	Customer Services	2.00%	60,375	1,811			-			-		1,208	60,375	3,019
10	364	Flow Measuring Devices	10.00%	-	-			-			-		-	-	-
10	365	Flow Measuring Installations	10.00%	-	-			-			-		-	-	-
10	366	Reuse Services	2.00%	3,450	518			-			-		69	3,450	587
12	367	Reuse Meters And Installation	8.33%					-			-		-	-	-
13	370	Receiving Wells	3.33%	-	-			-			-		-	-	-
14	371	Pumping Equipment	12.50%	-	-			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%					-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%					-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%	890,485	66,786			-			-		44,524	890,485	111,311
18	381	Plant Sewers	5.00%	-	-			-			-		-	-	-
19	382	Outfall Sewer Lines	3.33%	-	-			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%	-	-			-			-		-	-	-
22	390.1	Computers and Software	20.00%	-	-			-			-		-	-	-
23	391	Transportation Equipment	20.00%	-	-			-			-		-	-	-
24	392	Stores Equipment	4.00%	-	-			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	-			-			-		-	-	-
26	394	Laboratory Equip	10.00%	-	-			-			-		-	-	-
26	395	Power Operated Equipment	5.00%	-	-			-			-		-	-	-
26	396	Communication Equip	10.00%	-	-			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-			-			-		-	-	-
26	398	Other Tangible Plant	10.00%	-	-			-			-		-	-	-
29				-	-			-			-		-	-	-
30				-	-			-			-		-	-	-
31				-				-			-		-	-	-
32				-				-			-		-	-	-
33				-				-			-		-	-	-
34								-			-		-	-	-
35															
36		TOTALS		1,379,092	79,962	-	-	-	-	-	-	-	53,032	1,379,092	132,995

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2007 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%			-			-		-	-	-
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	-	-
4	354	Structures & Improvements	3.33%			-			-		-	105,000	-
5	355	Power Generation	5.00%			-			-		1,876	56,350	6,568
6	360	Collection Sewer Forced	2.00%			-			-		144	7,879	504
7	361	Collection Sewers Gravity	2.00%			-			-		-	-	-
8	362	Special Collecting Structures	2.00%			-			-		5,211	260,553	18,239
9	363	Customer Services	2.00%			-			-		-	-	-
10	364	Flow Measuring Devices	10.00%			-			-		1,208	60,375	4,226
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		-	-	-
12	367	Reuse Meters And Installation	8.33%			-			-		69	3,450	656
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%			-			-		-	-	-
18	381	Plant Sewers	5.00%			-			-		44,524	890,485	155,835
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%			-			-		-	-	-
22	390.1	Computers and Software	20.00%			-			-		-	-	-
23	391	Transportation Equipment	20.00%			-			-		-	-	-
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35											-	-	-
36		TOTALS		-	-	-	-	-	-	-	53,032	1,379,092	186,027

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.4
Witness: Bourassa

				2008									
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%			-			-		-	-	-
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	105,000	-
4	354	Structures & Improvements	3.33%			-			-		1,876	56,350	8,444
5	355	Power Generation	6.00%			-			-		144	2,879	648
6	360	Collection Sewer Forced	2.00%			-			-		-	-	-
7	361	Collection Sewers Gravity	2.00%			-			-		5,211	260,553	23,450
8	362	Special Collecting Structures	2.00%			-			-		-	-	-
9	363	Customer Services	2.00%			-			-		1,208	60,375	5,434
10	364	Flow Measuring Devices	10.00%			-			-		-	-	-
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		69	3,450	725
12	367	Reuse Meters And Installation	8.33%			-			-		-	-	-
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%	13,507		13,507			-		44,862	903,992	200,897
18	381	Plant Sewers	5.00%			-			-		-	-	-
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%	2,552		2,552			-		85	2,552	85
22	390.1	Computers and Software	20.00%			-			-		-	-	-
23	391	Transportation Equipment	20.00%			-			-		-	-	-
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35						-			-		-	-	-
36		TOTALS		16,059	-	16,059	-	-	-	-	53,455	1,395,151	239,482

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.5
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009 Plant Additions (Per Books)	Plant Adjustments[1]	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%			-			-		-	-	-
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	105,000	-
4	354	Structures & Improvements	3.33%			-			-		1,876	56,350	10,321
5	355	Power Generation	5.00%			-			-		144	2,879	792
6	360	Collection Sewer Forced	2.00%			-			-		-	-	-
7	361	Collection Sewers Gravity	2.00%			-			-		5,211	260,553	28,661
8	362	Special Collecting Structures	2.00%			-			-		-	-	-
9	363	Customer Services	2.00%			-			-		1,208	60,375	6,641
10	364	Flow Measuring Devices	10.00%			-			-		-	-	-
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		69	3,450	794
12	367	Reuse Meters And Installation	8.33%			-			-		-	-	-
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%			-			-		45,200	903,992	245,896
18	381	Plant Sewers	5.00%			-			-		-	-	-
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%			-			-		170	2,552	256
22	390.1	Computers and Software	20.00%			-			-		-	-	-
23	391	Transportation Equipment	20.00%			-			-		-	-	-
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35													
36		TOTALS		-	-	-	-	-	-	-	53,876	1,396,151	293,360

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.6
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%			-			-		-	-	-
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	105,000	-
4	354	Structures & Improvements	3.33%			-			-		1,876	56,350	12,197
5	355	Power Generation	5.00%			-			-		144	2,879	936
6	360	Collection Sewer Forced	2.00%			-			-		-	-	-
7	361	Collection Sewers Gravity	2.00%			-			-		5,211	260,553	33,872
8	362	Special Collecting Structures	2.00%			-			-		-	-	-
9	363	Customer Services	2.00%			-			-		1,208	60,375	7,849
10	364	Flow Measuring Devices	10.00%			-			-		-	-	-
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		69	3,450	863
12	367	Reuse Meters And Installation	8.33%			-			-		-	-	-
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%			-			-		45,200	903,992	291,096
18	381	Plant Sewers	5.00%			-			-		-	-	-
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%			-			-		170	2,552	426
22	390.1	Computers and Software	20.00%			-			-		-	-	-
23	391	Transportation Equipment	20.00%			-			-		-	-	-
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35											-	-	-
36		TOTALS		-	-	-	-	-	-	-	53,878	1,395,151	347,237

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.7
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%			-			-		-	-	-
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	105,000	-
4	354	Structures & Improvements	3.33%			-			-		1,876	56,350	14,073
5	355	Power Generation	5.00%			-			-		144	2,879	1,080
6	360	Collection Sewer Forced	2.00%			-			-		-	-	-
7	361	Collection Sewers Gravity	2.00%			-			-		5,211	260,553	39,083
8	362	Special Collecting Structures	2.00%			-			-		-	-	-
9	363	Customer Services	2.00%			-			-		1,208	60,375	9,056
10	364	Flow Measuring Devices	10.00%			-			-		-	-	-
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		69	3,450	932
12	367	Reuse Meters And Installation	8.33%			-			-		-	-	-
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%			-			-		45,200	903,992	336,296
18	381	Plant Sewers	5.00%			-			-		-	-	-
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%			-			-		170	2,552	596
22	390.1	Computers and Software	20.00%			-			-		-	-	-
23	391	Transportation Equipment	20.00%			-			-		-	-	-
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35													
36		TOTALS		-	-	-	-	-	-	-	53,878	1,395,151	401,115

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.8
Witness: Bourassa

				2012									
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%										
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	-	-
4	354	Structures & Improvements	3.33%			-			-		-	105,000	-
5	355	Power Generation	5.00%			-			-		1,876	56,350	15,950
6	360	Collection Sewer Forced	2.00%			-			-		144	2,879	1,224
7	361	Collection Sewers Gravity	2.00%			-			-		-	-	-
8	362	Special Collecting Structures	2.00%			-			-		5,211	260,553	44,294
9	363	Customer Services	2.00%			-			-		-	-	-
10	364	Flow Measuring Devices	10.00%			-			-		1,208	60,375	10,264
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		-	-	-
12	367	Reuse Meters And Installation	8.33%			-			-		69	3,450	1,001
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%			-			-		-	-	-
18	381	Plant Sewers	5.00%			-			-		45,200	903,992	381,495
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%			-			-		-	-	-
22	390.1	Computers and Software	20.00%	1,698		1,698			-		227	4,251	823
23	391	Transportation Equipment	20.00%	421		421			-		42	421	42
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35						-			-		-	-	-
36		TOTALS		2,119	-	2,119	-	-	-	-	53,977	1,397,271	455,092

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	Adjustments A Adjustments Required to Reconcile to Reconstruction	B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Rebuttal Adjusted Accum. Depr.
1									
2									
3									
4									
5									
6	351	Organization Cost	-	-					-
7	352	Franchise Cost	-	-					-
8	353	Land and Land Rights	-	-					-
9	354	Structures & Improvements	15,950	-					15,950
10	355	Power Generation Equipment	1,224	-					1,224
11	360	Collection Sewers - Force	-	-					-
12	361	Collection Sewers - Gravity	44,294	-					44,294
13	362	Special Collecting Structures	10,264	-					10,264
14	363	Servcies to Customers	-	-					-
15	364	Flow Measuring Devices	1,001	-					1,001
16	365	Flow Measuring Installations	-	-					-
17	366	Reuse Services	-	-					-
18	367	Reuse Meters and Meter Installations	-	-					-
19	370	Receiving Wells	-	-					-
20	371	Pumping Equipment	381,495	-					381,495
21	374	Reuse Distribution Reservions	-	-					-
22	375	Reuse Transmission and Distribution	-	-					-
23	380	Treatment & Disposal Equipment	837	(14)					823
24	381	Plant Sewers	-	42					42
25	382	Outfall Sewer Lines	-	-					-
26	389	Other Plant & Misc Equipment	-	-					-
27	390	Office Furniture & Equipment	-	-					-
28	390.1	Computers & Software	-	-					-
29	391	Transportation Equipment	-	-					-
30	392	Stores Equipment	-	-					-
31	393	Tools, Shop & Garage Equipment	-	-					-
32	394	Laboratory Equipment	-	-					-
33	395	Power Operated Equipment	-	-					-
34	396	Communication Equipment	-	-					-
35	397	Miscellaneous Equipment	-	-					-
36	398	Other Tangible Plant	-						-
37		TOTALS	$ 455,064	$ 28	$ -	$ -	$ -	$ -	$ 455,092
38									
39		Accumulated Depreciation per Books							$ 455,064
40									
41		Increase (decrease) in Accumulated Depreciation							$ 28
42									
43		Adjustment to Accumulated Depreciation							$ 28
44									
45		SUPPORTING SCHEDULES							
46		B-2, pages 4.1							
47									

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 -A

Exhibit
Rebuttal Schedule B-2
Page 4.1
Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Accumulated Depreciation	Accumulated Depreciation Per Plant Reconstruction	Adjustment Required
1	Reconcilation to Reconstructed Accumulated Depreciation				
2					
3					
4					
5					
6	351	Organization Cost	-	-	-
7	352	Franchise Cost	-	-	-
8	353	Land and Land Rights	-	-	-
9	354	Structures & Improvements	15,950	15,950	-
10	355	Power Generation Equipment	1,224	1,224	-
11	360	Collection Sewers - Force	-	-	-
12	361	Collection Sewers - Gravity	44,294	44,294	-
13	362	Special Collecting Structures	10,264	10,264	-
14	363	Servcies to Customers	-	-	-
15	364	Flow Measuring Devices	1,001	1,001	-
16	365	Flow Measuring Installations	-	-	-
17	366	Reuse Services	-	-	-
18	367	Reuse Meters and Meter Installatior	-	-	-
19	370	Receiving Wells	-	-	-
20	371	Pumping Equipment	381,495	381,495	-
21	374	Reuse Distribution Reserviors	-	-	-
22	375	Reuse Transmission and Distributio	-	-	-
23	380	Treatment & Disposal Equipment	837	823	(14)
24	381	Plant Sewers	-	42	42
25	382	Outfall Sewer Lines	-	-	-
26	389	Other Plant & Misc Equipment	-	-	-
27	390	Office Furniture & Equipment	-	-	-
28	390.1	Computers & Software	-	-	-
29	391	Transportation Equipment	-	-	-
30	392	Stores Equipment	-	-	-
31	393	Tools, Shop & Garage Equipment	-	-	-
32	394	Laboratory Equipment	-	-	-
33	395	Power Operated Equipment	-	-	-
34	396	Communication Equipment	-	-	-
35	397	Miscellaneous Equipment	-	-	-
36	398	Other Tangible Plant	-		-
37		TOTALS	#REF!	$ 455,092	$ 28
38					
39					
40	SUPPORTING SCHEDULE				
41	B-2, pages 3.2 - 3.8				
42					

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5.0
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

	Gross CIAC	Accumulated Amortization
Computed balance at end of test year	$ 197,973	$ 86,715
Adjusted balance at end of test year	$ 197,973	$ 86,711
Increase (decrease)	$ -	$ 4
Adjustment to CIAC/AA CIAC	$ -	$ (4)
Label	3a	3b

SUPPORTING SCHEDULES
E-1
B-2, page 5.1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Contributions-in-aid of Construction (CIAC)

Exhibit
Rebuttal Schedule B-2
Page 5.1
Witness: Bourassa

Line No.			2006		2007		2008		2009	
1-2		Balance 12/31/2005	Additions	Balance 12/31/2006	Additions	Balance 12/31/2007	Additions	Balance 12/31/2008	Additions	Balance 12/31/2009
5	CIAC	197,973		197,973		197,973		197,973		197,973
7	Amortization Decision No. 70140	12,425								
8	Amortization Rate			4.16%		4.16%		4.14%		4.18%
9	Amortization (1/2 yr convention)			8,240		8,240		8,203		8,268
10	Accumulated Amortization			20,665		28,906		37,108		45,376
12	Net CIAC	185,548	-	177,308	-	169,067	-	160,865	-	152,597

Line No.		2010		2011		2012	
17-18		Additions	Balance 12/31/2010	Additions	Balance 12/31/2011	Additions	Balance 12/31/2012
20	CIAC						
21		-	197,973	-	197,973	-	197,973
24	Amortization Rate		4.18%		4.18%		4.18%
25	Amortization (1/2 yr convention)		8,268		8,268		8,269
26	Accumulated Amortization		70,178		78,446		86,715
28	Net CIAC	-	127,795	-	119,527	-	111,258

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Customer Deposits

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

Line No.			
4	Staff recommended balance	$	5,065
6	Book balance at end of test year	$	-
8	Increase (decrease)	$	5,065
19	SUPPORTING SCHEDULES		
20	Testimony		

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Cash Working Capital (1/8 of Allowance Operation and Maintenance Expense)	$	16,175
Pumping Power (1/24 of Pumping Power)		1,092
Purchased Water (1/24 of Purchased Water)		527
Prepaid Expenses		
Total Working Capital Allowance	$	17,795
Working Capital Requested	**$**	**-**

		Adjusted Test Year
Total Operating Expense	$	202,851
Less:		
Income Tax	$	(15,616)
Property Tax		4,401
Depreciation		45,791
Purchased Water		12,659
Pumping Power		26,213
Allowable Expenses	$	129,403
1/8 of allowable expenses	$	16,175

SUPPORTING SCHEDULES:
E-1

RECAP SCHEDULES:
B-1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**					
2	Flat Rate Revenues	$ -	$ -	$ -	$ -	$ -
3	Unmetered Water Revenues	116,023	-	116,023	209,436	325,458
4	Other Water Revenues	5,261	(1,820)	3,441		3,441
5		$ 121,284	$ (1,820)	$ 119,464	$ 209,436	$ 328,900
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Water	-	-	-		-
9	Purchased Power	26,213	-	26,213		26,213
10	Sludge Removal	12,659	-	12,659		12,659
11	Chemicals	5,400	-	5,400		5,400
12	Materials and Supplies	7,187	-	7,187		7,187
13	Office Supplies and Expense	2,446	-	2,446		2,446
14	Contractual Services - Accounting	20,135	-	20,135		20,135
15	Contractual Services - Professional	1,920	-	1,920		1,920
16	Contractual Services - Maintenance	-	-	-		-
17	Contractual Services - Other	46,650	-	46,650		46,650
18	Water Testing	5,669	8,858	14,527		14,527
19	Rents	-	-	-		-
20	Transportation Expenses	3,250	(1,750)	1,500		1,500
21	Insurance - General Liability	2,186	-	2,186		2,186
22	Insurance - Health and Life	-	-	-		-
23	Reg. Comm. Exp. - Other	-	-	-		-
24	Reg. Comm. Exp. - Rate Case	10,000	6,667	16,667		16,667
25	Miscellaneous Expense	13,152	(2,366)	10,786		10,786
26	Bad Debt Expense	-	-	-		-
27	Depreciation and Amortization Expense	45,744	48	45,791		45,791
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	4,476	(75)	4,401	2,576	6,977
30	Income Tax	(13,545)	(2,071)	(15,616)	32,628	17,012
31			-	-		-
32	**Total Operating Expenses**	$ 193,541	$ 9,310	$ 202,851	$ 35,204	$ 238,056
33	**Operating Income**	$ (72,257)	$ (11,130)	$ (83,387)	$ 174,232	$ 90,844
34	**Other Income (Expense)**					
35	Interest Income	-	-	-		-
36	Other income	-	-	-		-
37	Interest Expense	-	-	-		-
38	Other Expense	-	-	-		-
39		-	-	-		-
40	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
41	**Net Profit (Loss)**	$ (72,257)	$ (11,130)	$ (83,387)	$ 174,232	$ 90,844
42						
43	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
44	C-1, page 2				A-1	
45	E-2					
46						

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.1
Witness: Bourassa

Line No.		LABEL>>>>> Test Year Adjusted Results	1 Depreciation	2 Property Taxes	3 Rate Case Expense	4 Revenue Adjustment	5 Water Testing	6 Auto Expense	7 Telephone Expense
1	**Revenues**								
2	Flat Rate Revenues	$ -							
3	Measured Revenues	116,023							
4	Other Water Revenues	5,261				(1,820)			
5		$ 121,284	$ -	$ -	$ -	$ (1,820)	$ -	$ -	$ -
6	**Operating Expenses**								
7	Salaries and Wages	$ -							
8	Purchased Water	-							
9	Purchased Power	26,213							
10	Sludge Removal	12,659							
11	Chemicals	5,400							
12	Materials and Supplies	7,187							
13	Office Supplies and Expense	2,446							
14	Contractual Services - Accounting	20,135							
15	Contractual Services - Professional	1,920							
16	Contractual Services - Maintenance	-							
17	Contractual Services - Other	46,650							
18	Water Testing	5,669					8,858		
19	Rents	-							
20	Transportation Expenses	3,250						(1,750)	
21	Insurance - General Liability	2,186							
22	Insurance - Health and Life	-							
23	Reg. Comm. Exp. - Other	-							
24	Reg. Comm. Exp. - Rate Case	10,000			6,667				
25	Miscellaneous Expense	13,152							(2,366)
26	Bad Debt Expense	-							
27	Deprec. and Amort. Exp.	45,744	48						
28	Taxes Other Than Income	-							
29	Property Taxes	4,476		(75)					
30	Income Tax	(13,545)							
31									
32	**Total Operating Expenses**	$ 193,541	$ 48	$ (75)	$ 6,667	$ -	$ 8,858	$ (1,750)	$ (2,366)
33	**Operating Income**	$ (72,257)	$ (48)	$ 75	$ (6,667)	$ (1,820)	$ (8,858)	$ 1,750	$ 2,366
34	**Other Income (Expense)**								
35	Interest Income	-							
36	Other income	-							
37	Interest Expense	-							
38	Other Expense	-							
39		-							
40	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
41	**Net Profit (Loss)**	$ (72,257)	$ (48)	$ 75	$ (6,667)	$ (1,820)	$ (8,858)	$ 1,750	$ 2,366
42									
43	SUPPORTING SCHEDULES:								
44	C-2								
45	E-2								

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.2
Witness: Bourassa

Line No.		8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Income Taxes	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**							
2	Flat Rate Revenues					$ -		$ -
3	Measured Revenues					116,023	209,436	325,458
4	Other Water Revenues					3,441		3,441
5		$ -	$ -	$ -	$ -	$ 119,464	$ 209,436	$ 328,900
6	**Operating Expenses**							
7	Salaries and Wages					$ -		$ -
8	Purchased Water					-		-
9	Purchased Power					26,213		26,213
10	Sludge Removal					12,659		12,659
11	Chemicals					5,400		5,400
12	Materials and Supplies					7,187		7,187
13	Office Supplies and Expense					2,446		2,446
14	Contractual Services - Accounting					20,135		20,135
15	Contractual Services - Professional					1,920		1,920
16	Contractual Services - Maintenance					-		-
17	Contractual Services - Other					46,650		46,650
18	Water Testing					14,527		14,527
19	Rents					-		-
20	Transportation Expenses					1,500		1,500
21	Insurance - General Liability					2,186		2,186
22	Insurance - Health and Life					-		-
23	Reg. Comm. Exp. - Other					-		-
24	Reg. Comm. Exp. - Rate Case					16,667		16,667
25	Miscellaneous Expense					10,786		10,786
26	Bad Debt Expense					-		-
27	Deprec. and Amort. Exp.					45,791		45,791
28	Taxes Other Than Income					-		-
29	Property Taxes					4,401	2,576	6,977
30	Income Tax				(2,071)	(15,616)	32,628	17,012
31								
32	**Total Operating Expenses**	$ -	$ -	$ -	$ (2,071)	$ 202,851	$ 35,204	$ 238,056
33	**Operating Income**	$ -	$ -	$ -	$ 2,071	$ (83,387)	$ 174,232	$ 90,844
34	**Other Income (Expense)**							
35	Interest Income					-		-
36	Other income					-		-
37	Interest Expense					-		-
38	Other Expense					-		-
39						-		-
40	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
41	**Net Profit (Loss)**	$ -	$ -	$ -	$ 2,071	$ (83,387)	$ 174,232	$ 90,844
42								
43	SUPPORTING SCHEDULES:							
44	C-2							
45	E-2							

RECAP SCHEDULES:
C-1, page 1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	
1								Subtotal
2		Depreciation	Property	Rate Case	Revenue	Water	Auto	
3		Expense	Taxes	Expense	Adjustment	Testing	Expense	
4	Revenues	-	-	-	(1,820)	-	-	(1,820)
5								
6	Expenses	48	(75)	6,667	-	8,858	(1,750)	13,747
7								
8	Operating							
9	Income	(48)	75	(6,667)	(1,820)	(8,858)	1,750	(15,567)
10								
11	Interest							
12	Expense						-	-
13	Other							
14	Income /							-
15	Expense							
16								
17	Net Income	(48)	75	(6,667)	(1,820)	(8,858)	1,750	(15,567)
18								
19								

Line No.		Adjustments to Revenues and Expenses						
20								
21		7	8	9	10	11		Subtotal
22			Intentionally	Intentionally	Intentionally			
23		Telephone	Left	Left	Left	Income		
24		Expense	Blank	Blank	Blank	Taxes		
25	Revenues	-	-	-	-	-		(1,820)
26								
27	Expenses	(2,366)	-	-	-	(2,071)	-	9,310
28								
29	Operating							
30	Income	2,366	-	-	-	2,071	-	(11,130)
31								
32	Interest							
33	Expense							-
34	Other							
35	Income /							-
36	Expense							
37								
38	Net Income	2,366	-	-	-	2,071	-	(11,130)
39								
40								

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Original Cost	Non-depreciable/ Fully Depreciated	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3							
4							
5	351	Organization Cost	-	-	-	0.00%	-
6	352	Franchise Cost	-	-	-	0.00%	-
7	353	Land and Land Rights	105,000	(105,000)	-	0.00%	-
8	354	Structures & Improvements	56,350		56,350	3.33%	1,876
9	355	Power Generation Equipment	2,879		2,879	5.00%	144
10	360	Collection Sewers - Force	-		-	2.00%	-
11	361	Collection Sewers - Gravity	260,553		260,553	2.00%	5,211
12	362	Special Collecting Structures	-		-	2.00%	-
13	363	Servcies to Customers	60,375		60,375	2.00%	1,208
14	364	Flow Measuring Devices	-		-	10.00%	-
15	365	Flow Measuring Installations	-		-	10.00%	-
16	366	Reuse Services	3,450		3,450	2.00%	69
17	367	Reuse Meters and Meter Installations	-		-	8.33%	-
18	370	Receiving Wells	-		-	3.57%	-
19	371	Pumping Equipment	-		-	10.00%	-
20	374	Reuse Distribution Reserviors	-		-	2.50%	-
21	375	Reuse Transmission and Distribution	-		-	2.00%	-
22	380	Treatment & Disposal Equipment	903,992		903,992	5.00%	45,200
23	381	Plant Sewers	-		-	5.00%	-
24	382	Outfall Sewer Lines	-		-	3.33%	-
25	389	Other Plant & Misc Equipment	-		-	6.67%	-
26	390	Office Furniture & Equipment	4,251		4,251	6.67%	284
27	390.1	Computers & Software	421		421	20.00%	84
28	391	Transportation Equipment	-		-	20.00%	-
29	392	Stores Equipment	-		-	4.00%	-
30	393	Tools, Shop & Garage Equipment	-		-	10.00%	-
31	394	Laboratory Equipment	-		-	10.00%	-
32	395	Power Operated Equipment	-		-	5.00%	-
33	396	Communication Equipment	-		-	10.00%	-
34	397	Miscellaneous Equipment	-		-	10.00%	-
35	398	Other Tangible Plant	-		-	10.00%	-
36							
37							
38					-	10.00%	-
39		TOTALS	$ 1,397,271	$ (105,000)	$ 1,292,271		$ 54,075
40							
41					Gross CIAC	Amort. Rate	
42		Less: Amortization of Contributions			$ 197,973	4.1845%	$ (8,284)
43		Total Depreciation Expense					$ 45,791
44							
45		Adjusted Test Year Depreciation Expense					45,744
46							
47		Increase (decrease) in Depreciation Expense					48
48							
49		Adjustment to Revenues and/or Expenses					$ 48
50							
51		SUPPORTING SCHEDULE					
52		B-2, page 3			*Fully Depreciated		

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 119,464	$ 119,464
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	238,928	238,928
4	Company Recommended Revenue	119,464	328,900
5	Subtotal (Line 4 + Line 5)	358,391	567,827
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	119,464	189,276
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	238,928	378,551
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	421	421
12	Full Cash Value (Line 9 + Line 10 - Line 11)	238,507	378,130
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	47,701	75,626
15	Composite Property Tax Rate - Obtained from ADOR	9.2262%	9.2262%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 4,401	$ 6,977
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 4,401	
19	Adjusted Test Year Property Taxes	$ 4,476	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	$ (75)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 6,977
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 4,401
24	Increase in Property Tax Due to Increase in Revenue Requirement		$ 2,576
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 2,576
27	Increase in Revenue Requirement		$ 209,436
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.23016%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Rate Case Expense

Line No.			
1			
2			
3	Estimated Rate Case Expense	$	50,000
4			
5	Estimated Amortization Period in Years		3
6			
7	Annual Rate Case Expense	$	16,667
8			
9	Adjusted Test Year Rate Case Expense	$	10,000
10			
11	Increase(decrease) Rate Case Expense	$	6,667
12			
13	Adjustment to Revenue and/or Expense	$	6,667
14			
15			
16	Reference		
17	Testimony		
18			
19			
20			

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Revenue Adjustment

Line No.			
1			
2	Revenue Adjustment	$	(1,820)
3			
4			
5			
6	Total Revenue from Annualization	$	(1,820)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(1,820)
10			
11	Reference		
12	Staff Adjustment # 1		
13			
14			
15			
16			
17			
18			
19			
20			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Water Testing

Line No.			
1			
2	Staff Recommended Water Testing Expense	$	14,527
3			
4	Adjuste Test Year Water Testing Expense	$	5,669
5			
6	Adjustment to purchased power expense (rounded)	$	8,858
7			
8			
9	Adjustment to Revenue and/or Expense		8,858
10			
11	Reference		
12	Staff Adjustment #3		
13			
14			
15			
16			
17			
18			
19			
20			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Auto Expense

Line No.			
1			
2			
3	Test Year Auto Expense	$	1,500
4			
5	Staff Recommended Auto Expense		3,250
6			
7	Adjustment to Revenues	$	(1,750)
8			
9			
10	Adjustment to Revenue and/or Expense		(1,750)
11			
12	Reference		
13	Staff Adjustment #3		
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Telephone Expense

Staff Recommended Telephone Expense	$	2,366
Adjusted Test Year Telephone Expense		4,732
Adjustment to Revenues	$	(2,366)
Adjustment to Revenue and/or Expense	$	(2,366)

Reference
Staff Adjustment #4

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

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Line
No.

Utility Source. LLC - Wastewater Division	Exhibit
Test Year Ended December 31, 2012	Schedule C-2
Adjustment to Revenues and Expenses	Page 10
Adjustment Number 9	Witness: Bourassa

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Line
No.

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Schedule C-2
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Witness: Bourassa

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Line
No.

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 11

Exhibit
Rebuttal Schedule C-2
Page 12
Witness: Bourassa

Income Taxes

	Test Year at Present Rates	Test Year at Proposed Rates
Compauted Income Tax	$ (15,616)	$ 17,012
Test Year Income tax Expense	(13,545)	(15,616)
Adjustment to Income Tax Expense	$ (2,071)	$ 32,628

SUPPORTING SCHEDULE
C-3, page 2

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Description	Percentage of Incremental Gross Revenues
Combined Federal and State Effective Income Tax Rate	15.773%
Property Taxes	1.036%
Total Tax Percentage	16.809%
Operating Income % = 100% - Tax Percentage	83.191%
$\frac{1}{\text{Operating Income \%}}$ = Gross Revenue Conversion Factor	1.2021

SUPPORTING SCHEDULES:
C-3, page 2

RECAP SCHEDULES:
A-1

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollecible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	16.8091%					
5	Subtotal (L3 - L4)	83.1909%					
6	Revenue Conversion Factor (L1 / L5)	1.202055					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	15.7730%					
9	One Minus Combined Income Tax Rate (L7 - L8)	84.2270%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	2.8074%					
14	Federal Taxable Income (L12 - L13)	97.1926%					
15	Applicable Federal Income Tax Rate (L55 Col F)	13.3401%					
16	Effective Federal Income Tax Rate (L14 x L15)	12.9656%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		15.7730%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	15.7730%					
20	One Minus Combined Income Tax Rate (L18-L19)	84.2270%					
21	Property Tax Factor	1.2302%					
22	Effective Property Tax Factor (L20*L21)		1.0361%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			16.8091%			
24	Required Operating Income	$ 90,844					
25	AdjustedTest Year Operating Income (Loss)	$ (83,387)					
26	Required Increase in Operating Income (L24 - L25)		$ 174,232				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	$ 17,012					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	$ (15,616)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 32,628				
30	Recommended Revenue Requirement	$ 328,900					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -					
33	Adjusted Test Year Uncollectible Expense	$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ -				
35	Property Tax with Recommended Revenue	$ 6,977					
36	Property Tax on Test Year Revenue	$ 4,401					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 2,576				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 209,436				

Line No.		(A)	(B)	(C)	(D)	(E)	(F)
		Test Year			Company Recommended		
	Calculation of Income Tax:	Total		Wastewater	Total		Wastewater
39	Revenue	$ 119,464		$ 119,464	$ 328,900		$ 328,900
40	Operating Expenses Excluding Income Taxes	218,467		218,467	221,043		221,043
41	Synchronized Interest (L47)	-		-	-		-
42	Arizona Taxable Income (L39 - L40 - L41)	$ (99,003)		$ (99,003)	$ 107,856		$ 107,856
43	Arizona State Effective Income Tax Rate (see work papers)	2.8074%		2.8074%	2.8074%		2.8074%
44	Arizona Income Tax (L42 x L43)	$ (2,779)		$ (2,779)	$ 3,028		$ 3,028
45	Federal Taxable Income (L42- L44)	$ (96,224)		$ (96,224)	$ 104,828		$ 104,828
46	Federal Tax Rate	13.3401%		13.3401%	13.3401%		13.3401%
47	Federal Tax	$ (12,836)		$ (12,836.35)	$ 13,984		$ 13,984
48							
49							
50							
51							
52							
53	Total Federal Income Tax	$ (12,836)		$ (12,836)	$ 13,984		$ 13,984
54	Combined Federal and State Income Tax (L35 + L42)	$ (15,616)		$ (15,616)	$ 17,012		$ 17,012
55	COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]				13.3401%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]						
57	WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45]						13.3401%

Line No.	*Calculation of Interest Synchronization:*	Water	Wastewater
58	Rate Base	$ 1,575,194	$ 825,856
59	Weighted Average Cost of Debt	0.0000%	0.0000%
60	Synchronized Interest (L59 X L60)	$ -	$ -

Utility Source, LLC - Wastewater Division
Revenue Summary
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Classification		Total Revenues at Present Rates		Total Revenues at Proposed Rates		Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	3/4 Inch	Residential	$	92,479	$	287,729	$	195,250	211.13%	77.41%	87.48%
2	3/4 Inch	Commercial		114		740		626	547.81%	0.10%	0.22%
3	2 Inch	Commercial		23,698		36,829		13,131	55.41%	19.84%	11.20%
4											
5											
6											
7											
8											
9	**Subtotals of Revenues**		$	116,291	$	325,298	$	209,007	179.73%	97.34%	98.90%
10	**Revenue Annualizations:**										
11	3/4 Inch	Residential	$	173	$	741	$	567	327.23%	0.15%	0.23%
12											
13											
14											
15											
16	**Subtotal Revenue Annualization**			173		741		567	327.23%	0.15%	0.62%
17											
18	**Total Revenues w/ Annualization**		$	116,465	$	326,039	$	209,574	179.95%	97.49%	99.13%
19	**Misc Revenues, as adjusted**			3,441		3,441		-	0.00%	2.88%	1.05%
20	**Reconciling Amount**			(442)		(580)		(138)	31.22%	-0.37%	-0.18%
21	**Total Revenues**		$	119,464	$	328,900	$	209,436	175.31%	100.00%	100.00%
22											
23											

Utility Source, LLC - Wastewater Division
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		(a) Average Number of Customers at 12/31/2012	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	3/4 Inch	Residential	320	4,123	$ 24.08	$ 74.91	$ 50.83	211.13%	98.77%
2	3/4 Inch	Commercial	1	1,667	9.52	61.66	52.14	547.81%	0.31%
3	2 Inch	Commercial	3	115,286	658.29	1,023.04	364.75	55.41%	0.93%
4									
5									
6									
7									
8									
9									
10									
11									
12	Totals		324						100.00%
13									
14	Actual Year End Number								
15	of Customers:		325						
16									
17									
18									
19									

Utility Source, LLC - Wastewater Division
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-2
Page 2
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		(a) Average Number of Customers at 12/31/2012	Median Consumption	Median Bill: Present Rates	Median Bill: Proposed Rates	Proposed Increase: Dollar Amount	Proposed Increase: Percent Amount	Percent of Customers
1	3/4 Inch	Residential	320	3,500	$ 20.44	$ 71.60	$ 51.16	250.30%	98.77%
2	3/4 Inch	Commercial	1	1,500	$ 8.57	$ 60.79	52.23	609.80%	0.31%
3	2 Inch	Commercial	3	65,000	371.15	761.75	390.60	105.24%	0.93%
4									
5									
6									
7									
8									
9									
10									
11	Totals		324						100.00%
12									
13	Actual Year End Number								
14	of Customers:		325						
15									
16									
17									
18									

Utility Source, LLC - Wastewater Division
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size (Residential, Commercial)		Present Rates		Proposed Rates
1	**Monthly Usage Charge for:**				
2	5/8 x 3/4 Inch	$	-	$	53.00
3	3/4 Inch		-		53.00
4	1 Inch		-		132.50
5	1 1/2 Inch		-		265.00
6	2 Inch		-		424.00
7	3 Inch		-		848.00
8	4 Inch		-		1,325.00
9	6 Inch				2,650.00
10					
11	Gallons In Minimum				
12	All Meter Sizes		-		-
13					
14	Rate per 1,000 Gallons of Water Usage				
15	Residential	$	5.84	$	5.31
16	Commercial and Industrial				
17	Car washes, laudromats, Commercial, Manufacturing		5.71		5.20
18	Hotels, Motels		7.66		6.97
19	Restauarants		9.46		8.61
20	Industrial Laundries		8.39		7.63
21	Waste haulers		171.20		155.79
22	Restuarant Grease		149.80		136.32
23	Treatment Plant Sludge		171.20		155.79
24	Mud Sump Waste		535.00		486.85
25					
26					
27					
28					
29					
30					

Utility Source, LLC - Wastewater Division
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Line No.			
1			
2	Other Charges:		
3			
4			
5	Establishment	$ 20.00	$ 20.00
6	Establishment (After Hours)	$ 40.00	*Removed
7	Reconnection (Delinquent)	$ 50.00	$ 50.00
8	Reconnection (Delinquent and After hours)	$ 40.00	*Removed
9	Minimum Deposit Requirement	PER RULE	PER RULE
10	Deposit Interest	PER RULE	PER RULE
11	Re-establishment (Within 12 months)	PER RULE	PER RULE
12	NSF Check	$ 20.00	$ 20.00
13	Deferred Payment, per month	PER RULE	PER RULE
14	Late Charge	PER RULE	PER RULE
15	After hours service charge	$ 40.00	$ 40.00
16			
17			
18			
19			
20			
21			
22			
23			
24	* After hours service charge will apply when service requested by customer after hours.		

ATTACHMENT 2

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-03437A-13-0331

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

(COST OF CAPITAL)

October 3, 2014

TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. On behalf of Applicant Utility Source, LLC ("USLLC" or the "Company").

Q. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON RATE BASE ISSUES IN THIS DOCKET?

A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement and rate design is being filed in a separate volume at the same time as this testimony. In this volume, I present my cost of capital rebuttal testimony. Also attached are two exhibits, which are discussed below.

II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY

Q. WHAT IS THE SCOPE OF THIS VOLUME OF YOUR REBUTTAL TESTIMONY?

A. I will provide rebuttal responses as appropriate to the direct testimony of Staff witness Mr. John Cassidy and RUCO witness Mr. Robert Mease. This portion of my rebuttal testimony focuses on cost of capital issues. I will testify in support of USLLC's proposed return on equity and rate of return on its fair value rate base ("FVRB"). I am sponsoring the Company's D Schedules, which are attached to this testimony. There are 22 schedules that support my cost of capital testimony. As noted above, I am also sponsoring rebuttal testimony that addresses the Company's rate base, income statement (revenue and operating expenses), required increase in revenue, and its rate design and proposed rates and charges for service.

For convenience, that testimony and my related schedules are contained in separate volumes.

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?

A. Yes. The range of my rebuttal DCF, CAPM, and Build-up Method analyses is 9.0 percent to 11.6 percent with a mid-point of 10.3 percent compared to my direct DCF, CAPM, and Build-up Method analyses is 8.5 percent to 11.7 percent with a mid-point of 10.1 percent. My opinion that a return on equity of 11.0 percent for USLLC given its size and greater risk compared to the public traded water utilities has not changed.

Q. HAVE YOU CHANGED ANY OF YOUR METHODS AND INPUTS?

A. I continue to use the three methods I used in my direct testimony; the DCF, CAPM, and the Build-up Method. My inputs have been updated to use more current data. I also changed the methodology for computing the current market risk premium ("MRP") for the current MRP CAPM. Instead of using the median 3-5 year projected price appreciation for the Value Line 1700 stocks in the estimation of the current MRP, I used the median 3-5 year projected earnings per share growth ("EPS") growth and median 3-5 year projected dividend per share growth ("DPS") growth. Using these inputs is consistent with the methodology recommended by Dr. Morin for computing the current MRP.[1] Using EPS and DPS inputs is more consistent with the DCF method used to estimate the current MRP. Just as important, I have found that using EPS growth and DPS growth inputs in the MRP estimation approach is less volatile than using the 3-5 year price appreciation which I noted in my direct was a concern of its use.[2]

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[1] Roger A. Morin, *New Regulatory Finance* (Public Utility Reports 2006), ("Morin") pp. 165-166.

[2] See Direct Testimony of Thomas J. Bourassa ("Bourassa Dt.") at 39.

Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL RESOMMENDATIONS.

A. As noted above, I recommend a return on equity of 11.0 percent which is above the mid-point of the range of my DCF, CAPM, and Build-up Method analyses of 10.2 percent but well below the top end of the range of 11.5 percent.[3] I also recommend a capital structure consisting of 0 percent debt and 100 percent equity. Based on these recommendations with weighted average cost of capital ("WACC") is 11.0 percent. Therefore, I recommend an 11.0 percent return be applied to USLLC's fair value rate base ("FVRB").

III. <u>SUMMARY OF THE STAFF AND RUCO RECOMMENDATIONS</u>

Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A. Staff is recommending a capital structure consisting of 0 percent debt and 100 percent equity.[4] Staff determined a cost of equity of 9.6 percent based on the average cost of equity produced by its DCF and CAPM models, a financial risk adjustment and an economic assessment adjustment (EAA).[5] Staff used a sample of seven publicly traded water utilities; six of which are the same as those I used in my analysis.[6] Staff did not consider firm size or firm-specific risks in its analysis.

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[3] See USLLC Direct Scehdule D-4.1.

[4] Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 27.

5 Id. at 28.

6 Staff has added York Water (YORW) to its proxy group.

Based on its capital structure recommendation, Staff determined the WACC for USLLC to be 9.6 percent.[7]

RUCO is recommending a capital structure consisting of 0 percent debt and 100 percent equity.[8] RUCO determined a cost of equity of 9.25 percent based on the average cost of equity produced by its DCF and CAPM models as wells as a Comparable Earnings analysis.[9] RUCO used a sample of seven publicly traded water utilities; six of which are the same as those I used in my analysis.[10] RUCO did not consider firm size or firm-specific risks in its analysis. Based on its capital structure recommendation, RUCO determined the WACC for USLLC to be 9.25 percent.[11]

Q. **PLEASE COMPARE THE PARTIES' RESPECTIVE COST OF EQUITY ESTIMATES AND RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING.**

A. The respective parties' cost of equity recommendations are summarized below:

Party	DCF	CAPM	Build-Up/CE	Average	Financial Risk/EAA	Adjusted	Recommended
USLLC	9.6%	9.7%	11.5%	10.3%	N/A	10.3%	11.0%
Staff	9.0%	N/A	N/A	9.0%	0.6%	9.6%	9.6%
RUCO	8.86	7.24	9.8	8.63	N/A	8.63	9.25%

7 Cassidy Dt. at 28.

8 Direct Testimony of Robert B. Mease ("Mease Dt.") at 4.

9 *Id.* at 3.

10 Staff has added York Water (YORW) to its proxy group.

11 Cassidy Dt. at 47.

Q. HOW DO THE PARTIES' RECOMMENDATIONS COMPARE TO OTHER FORECASTS OF COMMON EQUITY RETURNS AND CURRENTLY AUTHORIZED RETURNS?

A. They are much lower. *Value Line*, a reputable publication used by the Company and Staff cost of capital witnesses in the instant case, publishes forecasts of returns on common equity for larger publicly traded companies. Six water utilities are included in my sample group while Staff and RUCO include seven. *Value Line* (July 18, 2014) shows actual and projected returns on equity for those water utilities:

Company	Actual 2013	2014	2015	2017-19
American States Water (AWR)	12.7%	12.5%	12.0%	12.5%
Aqua America (WTR)	13.4%	13.5%	14.5%	14.0%
California Water (CWT)	7.9%	8.0%	9.0%	10.0%
Connecticut Water (CTWS)	9.2%	10.0%	9.0%	8.5%
Middlesex Water (MSEX)	8.7%	8.5%	8.5%	9.0%
SJW Corp. (SJW)	7.3%	7.5%	8.0%	8.0%
York Water. (YORW)	9.3%	11.5%	12.0%	12.0%
Averages	9.8%	10.2%	10.4%	10.6%

Furthermore, the currently authorized ROEs for the sample water utility companies as reported by AUS Utility Reports (September 2014) average 10.03 percent. They are as follows:

Company	
American States Water (AWR)	9.99%
Aqua America (WTR)	10.29%
California Water (CWT)	9.99%
Connecticut Water (CTWS)	9.75%
Middlesex Water (MSEX)	10.15%
SJW Corp. (SJW)	9.99%
York Water. (YORW)	NM
Average	**10.03%**

Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE RETURN DATA YOU JUST PRESENTED, MR. BOURASSA?

A. For one, they are all much higher than the Staff and RUCO returns produced by their models, before any consideration of financial or other risks. For another, since we are applying a return to a book value rate base, book equity returns have relevance. In fact, if we are to meet the comparable earnings standards set forth in *Hope* and *Bluefield,* then a comparison to book returns is an essential element. These utilities' rates will be in effect during approximately the same time period as USLLC. Yet, if the Staff or RUCO recommendation is adopted, USLLC will be allowed to earn much less, failing the *Hope and Bluefield* standard.

Q. IS IT YOUR VIEW THAT USLLC'S ROE IS HIGHER THAN THE PUBLICLY TRADED UTILITIES?

A. Yes. My recommendation in the instant case is 70 basis points higher than the mid-point of my cost of equity estimates for the publicly traded water utilities. USLLC has nearly 9 times more business risk than the publicly traded water utilities, has a much higher operating leverage, is less diverse, and has limited financially flexibility because it is not publicly traded.[12] Further, since USLLC is not publicly traded, an investment in USLLC is illiquid compared to an investment in a publicly traded company and therefore has greater liquidity risk and a higher cost of capital. The 70 basis points difference is actually conservative given the risks associated with an investment in USLLC.

IV. REBUTTAL TO THE COST OF EQUITY RECOMMENDATIONS OF STAFF AND RUCO

A. Rebuttal to the Cost of Equity Recommendations of Staff

Q. STAFF ONLY USED THE DCF MODEL TO ESTIMATE THE COST OF EQUITY?

A. Yes. Staff uses two versions of the DCF model - a constant growth DCF and a multi-stage DCF. For unexplained reasons, Staff has not incorporated estimates derived from it CAPM.[13]

Q. IS THE USE OF ONLY ONE METHODOLOGY TO ESTIMATE THE COST OF EQUITY APPROPRIATE?

A. No. As Dr. Morin states:[14]

> Each methodology requires the exercise of considerable judgment on the reasonableness of the assumptions

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[12] Bourassa COC Dt. at 25-27.

[13] Cassidy Dt. at 3.

[14] Roger A. Morin. *New Regulatory Finance*, Public Utility Reports, Inc., 2006. pp. 428-429.

underlying the methodology and on the reasonableness of the proxies used to validate a theory. *The inability of the DCF model to account for changes in relative market valuation, discussed below, is a vivid example of the potential shortcomings of the DCF model when applied to a given company.* Similarly, the inability of the CAPM to account for variables that affect security returns other than beta tarnishes its use. (emphasis added)

No one individual method provides the necessary level of precision for determining a fair return, but each method provides useful evidence to facilitate the exercise of an informed judgment. Reliance on any single method or preset formula is inappropriate when dealing with investor expectations because of possible measurement difficulties and vagaries in individual companies' market data

When measuring equity costs, which essentially deals with the measurement of investor expectations, no single methodology provides a foolproof panacea. Each methodology requires the exercise of considerable judgment on the reasonableness of the assumptions underlying the methodology and on the reasonableness of the proxies used to validate the theory. It follows that more than one methodology should be employed in arriving at a judgment on the cost of equity and that these methodologies should be applied across a series of comparable risk companies.

Q. IS THE DCF A SUPERIOR METHODOLOGY?

A. No. Again, I concur with Dr. Morin who states:[15]

While it is certainly appropriate to use the DCF methodology to estimate the cost of equity, there is no proof that the DCF produces a more accurate estimate of the cost of equity than other methodologies. Sole reliance on the DCF model ignores the capital market evidence and financial theory formalized in the CAPM and other risk premium methods. The DCF model is one of many tools to be employed in conjunction with other methods to estimate the cost of equity. ***It is not a superior methodology that supplants other financial***

[15] Morin, p. 431.

> ***theory and market evidence. The broad usage of the DCF methodology in regulatory proceedings in contrast to its virtual disappearance in academic textbooks does not make it superior to other methods. The same is true of the Risk Premium and CAPM methodologies.*** (emphasis added)

Q. DOES THE DCF TEND TO UNDERSTATE THE INVESTORS' REQUIRED RETURN?

A. Yes, when the market value of assets is significantly higher or lower than book value, a market-based DCF cost rate applied to the book value of common equity will not produce investors' expected returns. Dr. Morin also provides an explanation for this flaw in the DCF:[16]

> The third reason and perhaps most important for caution and skepticism is that application of the DCF model produces estimates of common equity cost that are consistent with investors' expected return only when stock price and book value are reasonably similar, that is when the market-to-book ratio (M/B) is close to unity. As shown below, application of the standard DCF model to utility stocks understates the investor's expected return when the M/B ratio of a given stock exceeds unity. This was particularly relevant in the capital market environment of the 1990s and 2000s where utility stocks were trading at M/B ratios well above unity and have been for nearly two decades. The converse is also true, that is the DCF model overstates the investor's return when the M/B ratio is less than unity. The reason for the distortion is that the DCF market return is applied to a book value rate base by the regulator, that is, a utility's earnings are limited to earnings on a book value rate base.

At Mr. Cassidy's average DCF estimate of 9.0 percent, USLLC would have no realistic opportunity to actually earn Mr. Cassidy's market-based rate of return.

[16] Morin, p. 434.

For example, the average market price per share of his proxy group is $25.25[17] and the average book value per share is $12.50.[18] Under these circumstances, Mr. Cassidy's 9.0 percent market-based cost rate implies an annual return per share of $2.27[19] consisting of $0.73 in dividends[20] and $1.54 in growth (market-price appreciation).[21] However, application of a 9.0 percent return rate to book value per share ($12.50) produces an opportunity to earn a total annual return of just $1.13.[22] With annual dividends of $0.73[23], the utility could reasonably expect market-price appreciation of just $0.40[24], or only 1.58 percent.

As should be evident from the above example, the application of the DCF model produces estimates of the cost of equity that are consistent with investor expectations *only* when the market price of a stock and the stock's book value are approximately the same.[25] This is because in a regulatory setting the return is applied to book value, not market value. An underlying assumption of the standard DCF is that the stock price, book value, dividends, and earnings all grow at the

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[17] Average of stock prices for Cassidy proxy group at October 28, 2014.

[18] Average of book value per share as of December 31, 2013, as reported by *Value Line*.

[19] 9.0 percent times $25.25.

[20] Average adjusted dividend yield (D_0) for Cassidy proxy group of 2.9 percent times the average stock price of $25.25.

[21] Implied growth of 6.1 percent (the return of 9.0 percent less adjusted dividend yield of 2.9 percent) times the average stock price of $25.25.

[22] 9.0 percent times $12.50.

[23] $1.13 times average payout ratio of 60%

[24] $1.13 minus $0.68.

[25] Roger A. Morin, *New Regulatory Finance* (Public Utility Reports, Inc., 2006) ("Morin"), pp. 435.

same rate.[26] None of these assumptions have been historically true for the sample electric utility companies. Thus, one must be careful in the application of the DCF model in a cost of equity analysis; particularly when it is the only method employed.

We should also be concerned with the DCF model's applicability under current market conditions. The Federal Reserve's bond buying programs have kept longer-term bond yields low. Interest rates are expected to rise when the Federal Reserve ends its bond buying program and the economy continues to improve, but in the meantime and because bond yields are extremely low, investors are "chasing yields" and driving up the stock prices of companies that pay dividends, like utilities. [27] In fact, according to the Wall Street Journal, utilities have provided the best returns among the S&P 500's 10 sectors so far this year, returning 14 percent including dividends.[28] The 1-year, 3-year, and 5 – year annualized total returns for Mr. Cassidy's water proxy group are 12.76 percent, 12.57 percent, and 11.56 percent, respectively, which are all significantly higher than Mr. Cassidy's estimate

[26] Morin p. 292.
[27] "Dividend Paying Stocks Fit the Bill: Utilities and REITS Are Among Those Beating Major Indices; 'The Search for Yield Hasn't Abated,'" *Wall Street Journal*, July 8, 2014.
[28] *Id.*

of the cost of equity.[29] The recent higher returns expected by investors does not line up with recent experience in the markets. As Dr. Morin notes,

> To the extent that increase (decreases) in relative market valuation are anticipated by investors, especially myopic investors with short-term investment horizons, the standard DCF model will understate (overstate) the cost of equity.
>
> Another way of stating this point is that the DCF model does not account for the ebb and flow of investor sentiments over the course of the business cycle. The problem was particularly acute in the mid 1990's and mid 2000's where investors, faced with very low returns on short-term fixed-income securities and an uncertain market outlook, sought higher yields offered by utility stocks in a so-called flight to quality, boosting their stock price and lowering the dividend yield.[30]

The understatement/overstatement of investors' required return associated with the application of the market price-based DCF model to the book value of common equity clearly illustrates why reliance upon a single common equity cost rate model should be avoided.

Q. PLEASE COMMENT ON MR. CASSIDY'S DISCUSSION (AT PAGES 22-23 OF HIS DIRECT TESTIMONY) REGARING THE FINANCIAL IMPLICATIONS OF A MARKET-TO-BOOK RATIO OF GREATER THAN 1.0.

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[29] *Value Line* Anlayzer data from August 28, 2014.

[30] Morin, p. 433 (emphasis added).

A. There are a number of reasons investors may bid up market prices for stocks above book values, other than an expectation that a water utility will earn more than its cost of equity. One reason is that investors may expect a city or some other public entity to condemn all or part of a water utility, meaning the municipality will acquire the assets at the fair market value. Water utilities typically have assets that have a value based on reproduction cost that is well in excess of book value, and investors would be aware that a condemnation award could be well in excess of book values, even if the utility earns no more than its cost of equity.

Second, investors may anticipate a merger or acquisition that produces premium prices. With such anticipated sale prices well above book values, a water utility would also be priced above book value even if the water utility made no more than its cost of equity. There are other reasons as well. These include; (1) public utility commissions do not issues orders simultaneously in all jurisdictions, (2) not all of a company's earnings are regulated, (3) regulatory expenses, revenue and rate base adjustments may cause accounting returns to differ from those calculated on a rate case basis, (4) actual sales do not equal sales assumed in a rate case, (5) market expected ROEs change frequently while rate-case authorized ROEs do not, and (6) regulated subsidiaries constitute only a piece of a holding company pie.

The argument that utilities are earning more than their cost of capital because the market-to-book ratio is greater than 1.0 is superficial. There is ample evidence that for at least a decade now, regulated water utilities in Arizona have not been earning their costs of service, let alone overearning. Mr. Cassidy's claim - that one would expect market forces to move the stock price lower, close to a market-to-book ratio of 1.0, to reflect investor expectations of reduced expected future cash flows - is also flawed. Mr. Cassidy has ignored many of the things of importance to investors and why it is reasonable to expect market-to-book ratios to exceed 1.0 even if water utilities are expected to earn no more than their costs of equity. If regulators were to force the market-to-book ratios to 1.0 by intentionally lowering the allowed returns, such action would place utilities at a disadvantage in competing for investment capital with industrials and other unregulated companies, whose stock trades well above book value.

Q. PLEASE COMMENT ON STAFF'S ECONOMIC RISK ASSESSMENT, OR EAA.

A. I can't, at least not in any meaningful way. Staff does not really explain the basis for this adjustment in its testimony except to say that its EAA reflects the uncertain status of the economy and the market.[31] But Staff provides no analysis, study or authoritative reference upon which Mr. Cassidy's judgment rests for me to consider. Of course, I agree with Staff that the current economic environment supports increased ROEs. Interest rates are expected to increase as the FED curtails its easy money policies.[32] Yet, I have never seen an adjustment of this type from Staff or anyone else until the past couple of years. When economic conditions were far worse in 2008 through 2010, Staff never advanced an EAA. I am left a bit perplexed by the whole thing, but my skepticism, and the fact that the EAA has popped into existence out of nowhere, leads me to conclude that it is an ill-considered band-aid to cover up an unreasonably low ROE. Recall that without

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31 Cassidy Dt. at 28.

32 Blue Chip Financial Forecast, August 2014.

the EAA, Staff's ROE model would be only 9.0 percent (9.6 percent average of Staff's models less EAA of 60 basis points).[33]

B. Responses to Staff's Criticisms of the Company's Cost of Capital Analysis

Q. MR. CASSIDY CRITICIZES YOU (ON PAGE 30 OF HIS DIRECT TESTIMONY) FOR RELYING SOLEY ON ANALYSTS FORECASTS OF EPS GROWTH IN THE DCF MODEL. IS THIS TRUE?

A. No. I rely on both historical growth rates *and* forecasts of growth. For the historical growth rates, I use historical per share price growth, historical BVPS growth, historical EPS growth, and historical DPS growth.[34] For the forecast growth rate, I used long-term analyst estimates of EPS growth.[35] I just give more weight to the analyst forecasts of growth. It is important to note that Mr. Cassidy disagrees with the additional weight I give the analyst forecasts, but he is not saying these forecasts have no merit, nor did I rely solely on analyst forecasts of growth. The dispute between Mr. Cassidy and me comes down to something between 50 percent and my "greater" emphasis. In my direct testimony I explained why a weight greater than 50 percent should be given to analysts' estimates.[36]

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33 Cassidy Dt. at 28.

34 Bourassa COC Dt. at 35.

35 Id.

36 Bourassa COC Dt. at 31.

Q. AREN'T YOUR GROWTH ESTIMATES SIMILAR TO STAFF'S DESPITE THE GREATER EMPHASIS YOU PLACE ON ANALYSTS' FORECASTS OF GROWTH?

A. Yes. Staff's growth estimate for its constant growth DCF is 5.7 percent.[37] The implied growth for Staff's multi-stage DCF is 6.4 percent.[38] My two DCF growth estimates are 5.2 percent and 5.7 percent with a median of 5.5 percent.[39] In other words, my growth estimates are lower than Staff's. Any criticisms by Mr. Cassidy of my greater emphasis on analysts growth and the implication that my DCF estimate is overstated as a result is unfounded. As such, I will not respond at this time to Mr. Cassidy's criticisms of my use of analyst growth estimates on pages 31 through 35 of his testimony.

Q. DO YOU HAVE EVIDENCE THAT THE GROWTH FORECASTS USED BY BOTH STAFF AND THE COMPANY ARE SIGNIFICANTLY UNDERSTATED?

A. Yes. The 1-year, 3-year, and 5–year annualized total returns reported by *Value Line* (August 28, 2014) for Mr. Cassidy's water proxy group are approximately 12.8 percent, 12.6 percent, and 11.6 percent, respectively.[40] These indicated returns would imply a growth rate for the DCF model in the range of 8.7 to 9.9 percent.[41] Compare this to Staff's 5.7 percent growth rate and 6.4 percent

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[37] See Staff Schedule JAC-3. Solving the DCF model as set forth in Mr. Bourassa's Direct Testimony at page 31 yields g = k –D1/P0. Substituting Staff's dividend yield of 2.9% for D1/P0 and the Staff 9.3% result for k we get: g = 6.4 = 9.3 – 2.9

[38] See Staff Schedule JAC-3. The multi-stage DCF indicated cost of equity is 9.3 percent. Using the

[39] See USLLC Schedule D-4.8.

[40] A stock's total return is the percentage increase in the value of a shareholder's investment, assuming reinvestment of all dividends and adjusted for any stock splits.

[41] Solving the DCF model as set forth in Mr. Bourassa's Direct Testimony at page 31 yields g = k –D1/P0. Substituting Staff's dividend yield of 2.9 for D1/P0 and the high end of the range of 12.8 percent for k we get: g =

mentioned above. Even the growth rate based on analyst estimates that I use – 5.2 percent and 5.7 percent as shown on Schedule D-4.8 – falls far short of the implied growth rate investors have realized over the recent past. What this shows is that even when using forecasts of earnings growth, the indicated cost of equity can vastly understate the cost of equity.

Q. PLEASE COMMENT ON MR. CASSIDY'S TESTIMONY (AT PAGE 37) CRITICIZING YOU FOR CONSIDERING THE FORECASTED INTEREST RATES AS A PROXY FOR THE RISK FREE RATE.

A. By nature, the cost of capital is an opportunity cost: the prospective return available to investors from alternative investments of similar risk. In addition, we are setting rates that will be in effect for some future time period, the cost of capital estimation must be forward-looking. Since the cost of capital is prospective in nature it necessarily requires the use of a forward-looking bond yield.

Q. ANYTHING ELSE.

A. Yes. First, the average expected 30-year Treasury bond rates of 4.3 percent I employ in my CAPM analyses is higher than rates currently, but lower than Treasury bond rates were during most years used to determine historical relationships between interest rates and equity costs (and thus, risk premiums); the long-term risk-free rate (1926-2013) is 5.09 percent.[42] As a result, risk premiums today are expected to be higher than in the past.

Q. WHY IS THAT RISK PREMIUMS TODAY ARE EXPECTED TO BE HIGHER THAN RISK PREMIUMS IN THE PAST?

A. There is a theoretical reason and many sources of empirical data that support the

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8.7 = 11.6 – 2.9 and and the low end of the range of 11.6 percent for k we get: g = 9.9 = 12.8 – 2.9.

[42] Morningstar, *Ibbotson SBBI 2014 Classic Yearbook*, Table 11-5.

proposition that equity risk premiums increase when interest rates decrease.[43]

Q. THANK YOU. PLEASE CONTINUE.

A. The Federal Reserve has kept bond yields artificially low through its aggressive bond buying programs and other measures.[44] The Federal Reserve's bond buying programs are not sustainable and the continuation of these programs is not unlimited. The ending of these programs is expected later this year and the Federal Reserve is expected to begin raising interest rates by the middle of next year.[45] Therefore, interest rate levels since 2008 and current interest rate levels are not representative of the long-term cost of capital.

Q. HAS MR. CASSIDY PROVIDED ANY ANALYSES OR STUDIES THAT SUGGEST THAT CURRENT INTEREST RATES ARE BETTER PROXIES FOR THE RISK FREE RATE IN THE CAPM.

A. No. Staff typically uses spot interest rates in its CAPM. In my view, the currently low interest rates (as the result of the Fed's unprecedented actions to spur the economy in recent years)[46] contribute to distortions in Staff's CAPM, particularly when spot rates are used. This may be one of the reasons why Staff has abandoned its CAPM at this time while I have not.

Q. PLEASE COMMENT ON MR. CASSIDY'S TESTIMONY (AT PAGE 38) CRITICIZING YOU FOR CONSIDERING THE DIFFERENCES IN RISK DUE TO THE SIZE OF USLLC COMPARED TO THE PUBLICLY TRADED SAMPLE UTILITIES.

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[43] Morin, Chapter 4.; Harris and Marston, "Estimating Shareholders Risk Premia Using Analysts' Growth Rates," *Financial Management*, Summer 1992.;

[44] Bourassa Dt. at 9-11.

[45] Blue Chip Financial Forecast, August 2014.

[46] Bourassa Dt. at 9-11.

A. I have not made a specific size adjustment for USLLC; rather, I have pointed out the differences in risk stemming from USLLC's higher business risk, operating leverage, and liquidity and have recommended a return on equity that is above the mid-point.[47] My recommendation of 11.0 percent, which is 70 basis points higher than the mid-point of my analyses of 10.3 percent, is conservative given the risks of an investment in USLLC. That said, Mr. Cassidy does not dispute that smaller companies are more risky than larger companies.[48]

Q. TO REBUT ANY IMPACT OF SIZE FOR UTILITY COMPANIES, MR. CASSIDY REFERENCES A STUDY BY ANNIE WONG (AT PAGE 38). ARE YOU FAMILIAR WITH THIS STUDY?

A. I sure am. Over the past 10 plus years or so Staff's witnesses have repeatedly trotted out this one study to refute the notion that utilities like USLLC are more risky than the proxy companies because they are considerably and significantly smaller. Mr. Cassidy has done so in the past. In one recent case, he admitted on cross examination that he had never read Ms. Wong's actual paper, wasn't even sure what kind of paper it was (he thought it might be her doctoral thesis), and did not know whether it had ever been published.[49] Mr. Cassidy also stated that he was unaware of any other person that had published a similar conclusion.[50] I do not know what else Ms. Wong has done since, but I suspect this item of Ms. Wong's work, and its questionable conclusions, have found no greater audience than at public utility commissions where some party is trying to justify an unreasonably low ROE for a utility that is not publicly traded.

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[47] Bourassa Dt. at 25.

[48] Cassidy Dt. at 38.

[49] Transcript from March 28, 2013 hearing at 237:18 – 239:8, Rio Rico Utilities, Inc.

[50] Id. 238:13-20

Q. HAS MS. WONG DISPROVED THE EXISTENCE OF A SIZE PREMIUM FOR SMALL UTILITY STOCKS?

A. No. Actually, Ms. Wong's study has been criticized soundly: "[her] weak evidence provides little support for a small firm effect existing or not existing in <u>either</u> the industrial <u>or</u> the utility sector."[51] Dr. Zepp found that Ms. Wong's empirical results were not strong enough to conclude that beta risk of utilities is unrelated to size; he found that her use of monthly, weekly, and daily data may be the cause of her inability to find a relationship; and he found other studies that show trading infrequency to be a powerful cause of bias in beta risk when time intervals of a month or less are used to estimate beta's for small stocks.[52] The studies relied on in Mr. Zepp's published paper found, "when a stock is thinly traded, its stock price does not reflect the movement of the market, which drives down the covariance with the market and creates an artificially low beta estimate."[53] Thus, Ms. Wong's weak results were due to a flawed analysis.

Q. DON'T PASCHALL AND HAWKINS (QUOTED BY MR. CASSIDY ON PAGE 39) SUPPORT MS. WONG AND MR. CASSIDY'S VIEW THAT SMALLER WATER UTILITIES ARE <u>NOT</u> MORE RISKY THAN LARGER WATER UTILITIES?

A. No, the authors do not argue against a small company risk premium for small water utilities. Instead, they merely suggest that the small company risk premium may be lower than the average company for the reasons they state. [54] A very low risk

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[51] Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited," The Quarterly Review Economics and Finance, Vol. 43, Issue 3, Autumn 2003, 578-582.

[52] *Id.* at 579.

[53] *Id.*

[54] Micheal A. Paschall and George B. Hawkins, "Do Smaller Companies Warrant a Higher Discount Rate for Risk": The Size Effect' Debate," *CCH Business Valuation Alert*, Vol 1, Issue No. 2, December 1999.

premium for USLLC compared to the average company is exactly what I recommend in this case.

According to the empirical financial market data provided by Duff & Phelps, the indicated size premium over for a company the size of USLLC would be 12.12 percent over the average company the size of USLLC.[55] A size premium analysis provided in **Exhibit TJB-COC-RB1** indicates a size premium in the range of 99 to 377 basis points over the water proxy group. My implied risk premium is just 70 basis points[56], which is about 6 percent of the indicated small company risk premium for an average company the size of USLLC based on Duff&Phelps market data, and well below the bottom end of the range of the indicated additional risk premium over my water proxy group. Therefore, I think Paschall and Hawkins support my analysis not Mr. Cassidy's. That's true with respect to both, whether size matters, and, whether my recommended 11.0 return is conservative.

Q. DO YOU FIND ANY FURTHER SUPPORT IN PASCHALL AND HAWKINS?

A. Yes, as a matter of fact, I do. One of the main points of the authors' discussion was that the use of small company risk premium without consideration of the specific risks of the subject company could be subject to challenge. Recognition of the additional risk associated with an investment in USLLC compared to his water proxy group is something Mr. Cassidy fails to do.

That said, a great deal of my direct testimony was devoted to comparing the differences between the large publicly traded company and USLLC that would

[55] Duff&Phelps, *2014 Valuation Handbook*. Exhibit 7.3, Decile 10z.

[56] 11.0 percent recommendation less mid-point of 10.2 percent.

reflect differences in risk, which is exactly what the authors would recommend. As Paschall and Hawkins conclude:

> Failing to consider the additional risk associated with most smaller companies, however, is to fail to acknowledge reality. Measured properly, small company stocks have proven to be more risky over a long period of time than have larger company stock. This makes sense due to the various advantages that larger companies have over smaller companies. Investors looking to purchase a riskier company will require a greater return on investment to compensate for that risk.[57]

Q. DO PASCHALL AND HAWKINS REFERENCE ANY STUDIES TO SUPPORT THE PROPOSITION THAT A PRIVATELY HELD SMALL WATER UTILITY HAS THE SAME RISK AS A LARGE PUBLICLY TRADED UTILITY?

A. No.

Q. ARE THERE ANY STUDIES THAT CONTRADICT MS. WONG'S FINDINGS?

A. Yes, besides basic business sense, I am aware of two other studies that support the conclusion that small utilities are more risky than larger utilities. The first, a study conducted by the California Public Utilities Commission ("CPUC") looked at 58 water utilities.[58] Based on that study, the CPUC Staff concluded that smaller water utilities are more risky and required higher equity returns than larger water utilities. This position was adopted by the CPUC.[59] A second study, conducted by Dr. Zepp, showed that on average, the smaller water utilities in his study had a

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[57] Paschall supra.

[58] Id. at 580.

[59] Zepp, supra.

99 basis point higher cost of equity.[60] In short, Ms. Wong's now 20 year-old study of unknown providence, should be given little to no weight in these proceedings.

Q. DOES MR. CASSIDY DISPUTE YOUR ASSESSMENTS OF THE RELATIVE BUSINESS RISK BETWEEN THE PUBLICLY TRADED UTILTIES AND USLLC?

A. No. As I showed in my direct testimony, USLLC is nearly 9 times more risky than the publicly traded utilities as measured by the co-efficient of variation of earnings.[61] USLLC is roughly 8 times risky as measured by operating leverage. [62] These are quantitative measures of relative business risk and not simply an opinion.

C. <u>Rebuttal to the Cost of Equity Recommendations of RUCO</u>

Q. PLEASE COMMENT ON THE RUCO DCF ANALYSIS?

A. As discussed previously on pages 9-12, the DCF model has a tendency to mis-specify investors' required return rate when the market value of common stock differs significantly from its book value. The market-based DCF model will result in a total annual dollar return on book common equity equal to the total annual dollar return expected by investors only when market and book values are equal, but market values and book values of common stocks are rarely at unity.

Q. WHAT ARE THE RESULTS OF RUCO'S DCF ANALYSIS?

A. RUCO DCF results are just 7.3 percent to 7.4 percent.[63] By comparison of the actual and authorized returns of the public traded utilities as discussed on pages 5 and 6 (9.8 percent to 10.6 percent) and the recent annualized total market returns

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[60] Id.

[61] Bourassa Dt. at 25.

[62] *Id.* at 26.

[63] See RUCO Schedule RBM-4, page 1.

for the water utilities of 11.6 to 12.8 percent. Mr. Mease's own CE analysis indicated a return of 9.8 percent. Mr. Mease's results are extremely low by comparison and do not pass the smell test.

Q. DOESN'T MR. MEASE REPORT (AT PAGE 11) THAT HIS DCF ANALYSIS RESULTS ARE IN THE RATE OF 7.3 to 8.7 PERCENT?

A. Yes. Mr. Mease gets his 8.7 percent by reporting a composite median which he does not define or explain. The 8.7 percent is the result he reports on his summary cost of capital schedule (Schedule RDM-2) as the result for his DCF analysis. This "slight of hand" makes me think he is reporting statistics which he can then pick and choose from to cover up for his unreasonably low results. Regardless, like the Staff DCF results, USLLC would have no realistic opportunity to actually earn Mr. Mease's market-based rate of return at either 7.3 percent of 8.7 percent. I could perform the same analysis for the Staff DCF result as I did on pages 9-10 to demonstrate my assertion.

Q. ANTHING ELSE?

A. Yes. Mr. Mease reports a 3.9 percent indicated cost of equity for Middlesex Water on Schedule RBM-4. This is less than the current yield on Baa investment grade bonds of 4.73 percent.[64] In fact, there is only one DCF indicated cost of equity in Mr. Mease's schedule that is above 8.7 percent.

Q. PLEASE COMMENT ON THE RUCO CAPM ANALYSIS?

A. Mr. Mease's CAPM analysis produces an indicated cost of equity of just 7.25 percent. I am not surprised by his low CAPM results. His analysis is flawed in at least five respects. First, he has incorrectly relied upon a historical risk-free rate

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[64] Moody's Seasoned Baa bond yield as of October 1, 2014 as reported by the Federal Reserve.

despite the fact that both ratemaking and the cost of capital are prospective. Second, he has exclusively relied on historical measures of the market risk premium and does not employ a forward looking market risk premium. Third, his historical measures of the market risk premium are measured on market indices which are made up of the largest publicly traded companies and he does not recognize the additional risk premium of much smaller firms. Fourth, he employs a market risk premium that is based in part on historic geometric means, which should not be used in a prospective model like the CAPM. Fifth, he uses total returns on long-term government bonds in computing the market risk premium, which is inconsistent with treating the security as a riskless asset.

Q. PLEASE ELABORATE ON MR. MEASE'S USE OF HISTORICAL YIELDS ON LONG-TERM U.S. TREASURIES.

A. Mr. Mease relies on historical yields on long-term U.S. Treasury bond yields (i.e. 3 month recent historical average of 20-year U.S. Treasury bond yields) for his CAPM analysis.[65] I have several concerns about the use of current interest rates. First, it ignores the fact that both the cost of capital and ratemaking are prospective. Second, the average 20-year Treasury bond rates of 3.47 percent computed by Mr. Mease[66] is lower than Treasury bond rates were during most years used to determine historical relationships between interest rates and equity costs (and thus, risk premiums). Because risk premium vary inversely with interest rates, risk premiums today are expected to be higher than in the past. Thus, Mr. Mease's MRP which are based on an historical time period from 1926 to 2012 conflicts with the current low interest rate levels. Let me explain. On page 14 of his testimony,

[65] Mease Dt. at 12.

[66] *Id.*

Mr. Mease shows the arithmetic mean and geometric mean total return on long-term government bonds for the years 1926-2012 were 6.1 percent and 5.7 percent, respectively. On a correct income return basis, the arithmetic mean and geometric mean income return on long-term government bonds for the year 1926-2012 were 5.2 and 5.1 percent, respectively. All of these bond returns are higher than Mr. Mease's estimate of the risk free rate of 3.47 percent. As the historical data shows interest rates upon which Mr. Mease's MRP is developed far exceed the 3.47 percent he employs in his CAPM for the risk free rate

Q. PLEASE EXPLAIN WHAT YOU MEAN BY "CORRECT INCOME RETURN BASIS".

A. I will discuss this in more depth at page 26. For now, total return is comprised of three components; the income return, the capital appreciation return and the reinvestment return. Only the income return is the unbiased estimate of the riskless rate because it represents the riskless portion of the return. Because bond prices vary with prevailing bond yields over time, the inclusion of the capital appreciation return and reinvestment returns introduces price risk into the total return. Therefore, the total return does not represent a riskless return.

Q. PLEASE CONTINUE.

Q. The arithmetic mean and geometric mean for long-term income returns on government bonds have remained fairly stable at around 5.1 to 5.2 percent since 2009 (i.e. 1926-2009, 1926 2010, 1926-2011, 1926-2012, and 1926-2013).[67] While interest rate levels have been and are expected to remain low in the short-term, long-term interest rate levels are expected to rise in the next few years.

[67] As reported by Morrningstar.

Q. DO LOWER INTEREST RATES OVER THE PAST SEVERAL YEARS MEAN THAT THE COST OF EQUITY IS LOWER TODAY THAN IN THE PAST?

A. All things being equal, the cost of equity moves in the same direction as interest rates. Lower interest rates on U.S Treasuries ("risk-free" rate) imply lower equity returns and visa-versa. However, the risk premium required to compensate investors also impacts the cost of equity. Lower interest rates are associated with higher equity risk premiums. Higher risk premiums required by investors imply higher equity costs and vice versa. Risk premiums are impacted by uncertainty not only future interest rates, but business and economic conditions, expected inflation (or deflation), and other risk factors including business risk, regulatory risk, financial risk, construction risk, and liquidity risk. As noted on page 11, investors in Mr. Mease's water proxy group have realized market returns of 11.6 percent to 12.8 percent over the past several years despite the low interest rate environment.

Q. PLEASE COMMENT ON MR. MEASE'S FAILURE TO USE A PROSPECTIVE MARKET EQUITY RISK PREMIUM.

A. As noted on pages 16-17 above, the cost of capital is prospective in nature. As such, it necessarily requires the use of a forward-looking MRP. .

Q. PLEASE COMMENT ON MR. MEASE'S USE OF LARGE COMPANY INDEXES TO COMPUTE HIS MARKET RISK PREMIUM.

A. In his CAPM analysis, Mr. Mease uses the total returns on the S&P 500 (1926-2012) in the computation of his market risk premium.[68] The S&P 500 consists of the 500 largest companies and only approximately 20 percent of the S&P 500

[68] Mease Dt. at 14.

would be considered Mid Cap companies. Further, there are no companies in the Low-Cap or Micro-Cap categories. Because it is heavily weighted with Large-Cap companies, the S&P 500 is essentially a large company index. Morningstar refers to the S&P 500 as a large company index and cautions that "if using a large company index to calculate the equity risk premium, an adjustment is usually made to account for the different risk and return characteristics of small stocks." [69]

Q. **SHOULD THE CAPM RESULTS BE ADJUSTED TO REFLECT THE SMALL SIZE OF USLLC COMPARED TO MR. MEASE'S PROXY GROUP?**

A. Yes. The empirical evidence shows that smaller firms have higher betas. Morningstar reports that beta is inversely related to size. [70] In other words, as firm size decreases, beta increases. Because the CAPM is incomplete it should be adjusted to reflect the additional risks of smaller firms.[71]

Q. **PLEASE COMMENT ON MR. MEASE'S USE OF GEOMETRIC MEANS IN ESTIMATING THE HISTORICAL MARKET RISK PREMIUM FOR HIS CAPM ANALYSIS.**

A. Mr. Mease employs a geometric mean in calculating the market risk premium in his primary CAPM.[72] His choice to use geometric average is incorrect and depresses his cost of equity estimate. As various finance experts have explained,

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[69] Morningstar, *Ibbotson SBBI 2014 Classic Yearbook*, p. 152.

[70] Morningstar, *Ibbotson SBBI 2013 Valuation Yearbook*, Table 7-5, Table 7-8, Table 7-10, Table 7-11, and Table 7-12. Morningstar reports betas by portfolio for ten decile sizes using several alternative benchmarks. All alternatives show that as firm size decreases beta increases.

[71] Bourassa Dt. at 37 and 42.

[72] Mease Testimony, p. 14.

an arithmetic mean is the correct approach to use in estimating the cost of capital.[73] As Dr. Morin states:

> Because valuation is forward-looking, the appropriate average is the one that most accurately approximates the expected future rate of return. *The best estimate of the expected returns over a future holding period is the arithmetic average....*
>
> There is no theoretical or empirical justification for the use of geometric mean rates as a measure of the appropriate discount rate or computing present values. In any event, the CAPM is developed on the premise of expected returns being averages and risk being measured with standard deviation. Since the latter is estimated around the arithmetic average, not the geometric average, it is logical to stay with the arithmetic averages to estimate the market risk premium.[74]

The consensus among these experts makes sense. Only arithmetic mean return rates and yields are appropriate for cost of capital purposes because ex-post (historical) total returns and equity risk premiums differ in size and direction over time, providing insight into the variance and standard deviation of returns. The geometric mean of ex-post equity risk premiums provides no insight into the potential variance of future returns because the geometric mean relates the change over many periods to a constant rate of change, rather than the year-to-year fluctuations, or variance, which are critical to risk analysis. In short, the

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[73] Zvi Bode, Alex Kane, Alan J. Marcus, Investments (McGraw-Hill 6th ed., 2005)("Bode"), pp. 864-865.
Richard A. Brealey, Stewart C. Myers, Frankin Allen, Principles of Corporate Finance (McGraw-Hill 11th ed.)("Brealey"), pp. 162-163.

[74] Morin, pp. 156-57 (emphasis added).

conclusion of these financial experts is that while the geometric mean is useful in comparing what happened in the past, it should not be used to determine estimates of expected future returns or market risk premiums.

Q. WHAT OTHER ISSUE DO YOU HAVE WITH MR. MEASE'S COMPUTATION OF THE MARKET RISK PREMIUM?

A. As mentioned earlier on page 24, Mr. Mease incorrectly uses total returns on long-term government bonds when computing his estimate of the market risk premium. Although he has relied on *Morningstar*'s historical returns in his CAPM analysis,[75] Mr. Mease has ignored *Morningstar*'s recommendations regarding the use of the income return, and not the total return on U.S. Treasury securities, in deriving an equity risk premium. Pages 55 and 56 of the Ibbotson SBBI - 2013 Valuation Yearbook states:

> Another point to keep in mind when calculating the equity risk premium is that the income return on the appropriate-horizon Treasury security, rather than the total return, is used in the calculation. The total return is comprised of three return components: the income return, the capital appreciation return, and the reinvestment return. The income return is defined as the portion of the total return that results from periodic cash flow or, in this case, the bond coupon payment. The capital appreciation return results from the price change of a bond over a specific period. Bond prices generally change in reaction to unexpected fluctuations in yields. Reinvestment return is the return on a given month's investment income when reinvested into the same asset class in the subsequent months of the year. *The income return is thus used in the estimation of the*

[75] Mease Testimony, p. 54.

> *equity risk premium because it represents the truly riskless portion of the return.*
>
> * * * *
>
> Anticipated changes in yields are assessed by the market and figured into the price of a bond. Future changes in yields that are not anticipated will cause the price of the bond to adjust accordingly. Price changes in bonds due to unanticipated changes in yields introduce price risk into the total return. Therefore, the total return on the bond series does not represent the riskless rate of return. *The income return better represents the unbiased estimate of the purely riskless rate of return, since an investor can hold a bond to maturity and be entitled to the income return with no capital loss.*[76]

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF CAPITAL?

A. Yes. Although my silence on other positions of the other parties in this case on cost of capital and that were not addressed in my rebuttal testimony does not constitute agreement with them.

[76] *Morningstar, Ibbotson SBBI 2013 Valuation Yearbook,* 55-56 (emphasis added).

D SCHEDULES

Utility Source, LLC
Test Year Ended December 31, 2012
Summary of Cost of Capital

Exhibit
Rebuttal Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Consolidated Capital Structure

		Actual End of Test Year				Projected Capital Structure			
Line No.	Item of Capital	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
3	Stockholder's Equity	3,722,209	100.00%	11.00%	11.00%	3,649,952	100.00%	11.00%	11.00%
5	Totals	3,722,209	100.00%		11.00%	3,649,952	100.00%		11.00%

SUPPORTING SCHEDULES:
D-1
D-3
D-4

Testimony

RECAP SCHEDULES:

Utility Source, LLC
Test Year Ended December 31, 2012
Cost of Long Term Debt

Exhibit
Rebuttal Rebuttal Schedule D-2
Page 1
Witness: Bourassa

		End of Test Year				End of Projected Year			
Line No.	Description of Debt	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1									
2			-	0.000%	0.000%		-	0.000%	0.000%
3			-	0.000%	0.000%		-	0.000%	0.000%
4			-	0.000%	0.000%		-	0.000%	0.000%
5			-	0.000%	0.000%		-	0.000%	0.000%
6			-	0.000%	0.000%		-	0.000%	0.000%
7			-	0.000%	0.000%		-	0.000%	0.000%
8			-	0.000%	0.000%		-	0.000%	0.000%
9			-	0.000%	0.000%		-	0.000%	0.000%
10			-	0.000%	0.000%		-	0.000%	0.000%
11									
12									
13	Totals	$ -	-		0.000%	$ -	-		0.000%
14									
15									
16	Supporting Schdules:								
17	E-1								
18	E-2								
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									

Utility Source, LLC
Test Year Ended December 31, 2012
Cost of Preferred Stock

Exhibit
Rebuttal Rebuttal Schedı
Page 1
Witness: Bourassa

	End of Test Year			End of Projected Year		
Description of Issue	Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement

NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING

SUPPORTING SCHEDULES:
E-1

RECAP SCHEDULES:
D-1

Utility Source, LLC
Test Year Ended December 31, 2012
Cost of Common Equity

Exhibit
Rebuttal Rebuttal Schedule D-4
Page 1
Witness: Bourassa

The Company is proposing a cost of common equity of 11.00% .

SUPPORTING SCHEDULES:	RECAP SCHEDULES:
E-1	D-1
D-4.1 to D-4.18	

Utility Source, LLC
Summary of Results

Exhibit
Rebuttal Schedule D-4.1
Witness: Bourassa

Method	Median Result
DCF Constant Growth Estimates[1]	9.0%
CAPM Estimates[2]	9.7%
Build-up Method Estimates[3]	11.6%
Mid-point	10.3%
Recommended Cost of Equity[4]	11.0%

1 See Rebuttal Schedule D-4-8
2 See Rebuttal Schedule D-4.12
3 See Rebuttal Schedule D-4.18
[4] Testimony

Utility Source, LLC
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Rebuttal Schedule D-4.2
Witness: Bourassa

Company[1]	% Water Revenues[1]	Operating Revenues (millions)[1]	Net Plant (millions)[1]	S&P Bond Rating[1]	Moody's Bond Rating[1]	Allowed ROE (%)[1]	Book ROE (%)
1. American States	71%	$ 458.4	$ 988.7	A+	A2	9.99	12.30
2. Aqua America	98%	$ 770.9	$ 4,233.8	AA-	NR	10.29	14.60
3. California Water	100%	$ 587.0	$ 1,539.5	AA-	NR	9.99	7.90
4. Connecticut Water	100%	$ 94.9	$ 483.8	A/A-	NR	9.75	11.10
5. Middlesex	88%	$ 115.1	$ 451.4	A	NR	10.15	8.90
6. SJW Corp.	95%	$ 277.5	$ 915.0	A	NR	9.99	6.70
Average	92%	$ 384.0	$ 1,435.4			10.03	10.25
Utility Source, LLC (Adjusted as of December 31, 2012)	100%	$ 0.3	$ 4.0	NR	NR		

[1]AUS Utility Reports (September 2014).

Utility Source, LLC
Capital Structures

Exhibit
Rebuttal Schedule D-4.3
Witness: Bourassa

	Book Value[1]		Market Value[1]	
	Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
Company				
1. American States	39.8%	60.2%	21.5%	78.5%
2. Aqua America	48.9%	51.1%	25.9%	74.1%
3. California Water	41.6%	58.4%	28.0%	72.0%
4. Connecticut Water	47.0%	53.0%	32.7%	67.3%
5. Middlesex	40.7%	59.3%	29.0%	71.0%
6. SJW Corp.	51.0%	49.0%	38.1%	61.9%
Average	44.8%	55.2%	29.2%	70.8%
Utility Source, LLC (Actual December 31, 2012)	0.0%	100.0%	N/A	N/A

[1] Value Line Analyzer Data (September 28, 2014)
2 Adjusted Per Rebuttal Schedule D-1

Utility Source, LLC
Comparisons of Past and Future Estimates of Growth

Exhibit
Rebuttal Schedule D-4.4
Witness: Bourassa

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	Five-year historical average annual changes					Average	Average of Future and Historical
		Book			Average	Future	Growth
Company	Price[1]	Value[2]	EPS[2]	DPS[2]	Col 1-4	Growth[3]	Col 5-6
1. American States	16.07%	6.50%	13.00%	6.50%	10.52%	2.67%	6.59%
2. Aqua America	11.70%	6.00%	11.00%	7.00%	8.92%	6.00%	7.46%
3. California Water	4.27%	4.50%	4.00%	1.50%	3.57%	6.50%	5.03%
4. Connecticut Water	12.77%	8.00%	8.00%	2.00%	7.69%	5.00%	6.35%
5. Middlesex	8.36%	3.00%	1.50%	1.50%	3.59%	3.60%	3.60%
6. SJW Corp.	4.24%	2.50%	0.50%	3.50%	2.69%	10.50%	6.59%
GROUP AVERAGE	9.57%	5.08%	6.33%	3.67%	6.16%	5.71%	5.94%
GROUP MEDIAN	10.03%	5.25%	6.00%	2.75%	5.64%	5.50%	6.47%

[1] Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, September 28, 2014
3 See Rebuttal Schedule D-4.6.

Utility Source, LLC
Comparisons of Past and Future Estimates of Growth

Exhibit
Rebuttal Schedule D-4.5
Witness: Bourassa

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	Ten-year historical average annual changes						Average of Future and Historical
Company	Price[1]	Book Value[2]	EPS[2]	DPS[2]	Average Col 1-4	Average Future Growth[3]	Growth Col 5-6
1. American States	12.91%	5.00%	6.50%	3.00%	6.85%	2.67%	4.76%
2. Aqua America	10.31%	8.50%	7.00%	7.50%	8.33%	6.00%	7.16%
3. California Water	10.19%	5.00%	4.00%	1.00%	5.05%	6.50%	5.77%
4. Connecticut Water	6.58%	4.00%	0.50%	1.50%	3.14%	5.00%	4.07%
5. Middlesex	4.38%	4.50%	3.50%	1.50%	3.47%	3.60%	3.53%
6. SJW Corp.	12.91%	5.50%	4.00%	5.00%	6.85%	10.50%	8.68%
GROUP AVERAGE	9.54%	5.42%	4.25%	3.25%	5.62%	5.71%	5.66%
GROUP MEDIAN	10.25%	5.00%	4.00%	2.25%	5.95%	5.50%	5.27%

[1] Average of changes in annual stock prices ending December 31, 2013. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, September 28, 2014.
[3] See Rebuttal Schedule D-4.6.

Utility Source, LLC
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Rebuttal Schedule D-4.6
Witness: Bourassa

	[1]	[2]	[3]	[4]
	ESTIMATES OF EARNINGS GROWTH			Average
			Value	Growth (G)
Company	Yahoo[1]	Zacks[1]	Line[2]	(Cols 1-3)[3]
1. American States	1.00%	1.00%	6.00%	2.67%
2. Aqua America	4.00%	5.50%	8.50%	6.00%
3. California Water	6.00%	6.00%	7.50%	6.50%
4. Connecticut Water	5.00%	5.00%	5.00%	5.00%
5. Middlesex	2.70%		4.50%	3.60%
6. SJW Corp.	14.00%		7.00%	10.50%
GROUP AVERAGE	5.45%	4.38%	6.42%	5.71%
GROUP MEDIAN				5.50%

[1] Data as of October 2, 2014

[2] Data as of September 28, 2014.

[2] Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Utility Source, LLC
Current Dividend Yields for Water Utility Sample Group

Exhibit
Rebuttal Schedule D-4.7
Witness: Bourassa

Company	Average Stock Price (P_0)[1]	Current Dividend (D_0)[1]	Current Dividend Yield (D_0/P_0)[1]	Average Annual Dividend Yield (D_0/P_0)[1,2]
1. American States	$ 31.20	$ 0.87	2.79%	3.15%
2. Aqua America	$ 24.24	$ 0.66	2.72%	2.80%
3. California Water	$ 23.41	$ 0.66	2.82%	3.36%
4. Connecticut Water	$ 32.48	$ 1.03	3.17%	3.62%
5. Middlesex	$ 20.24	$ 0.77	3.80%	3.96%
6. SJW Corp.	$ 26.85	$ 0.76	2.83%	2.95%
Average			3.02%	3.31%
Median			2.83%	3.26%

[1] Yahoo Finance. 60 day average of stock prices as of October 2, 2014.
[2] Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Utility Source, LLC
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rebuttal Schedule D-4.8
Witness: Bourassa

	[1]	[2]	[3]	[4]
	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	Growth (g)	Indicated Cost of Equity k=Div Yld + g (Cols 2+3)
DCF - Past and Future Growth	3.02%	3.20%	5.94% [3]	9.1%
DCF - Future Growth	3.02%	3.20%	5.71% [4]	8.9%
Average	3.02%	3.20%	5.82%	9.0%
Median	3.02%	3.20%	5.82%	9.0%

1 Spot Dividend Yield = D0/P0. See Rebuttal Schedule D-4.7.

2 Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

3 Growth rate (g). Average of Past and Future Growth. See Rebuttal Schedule D-4.4, column 7

4 Growth rate (g). Average of Analyst Estimates Future Growth. See Rebuttal Schedule D-4.6.

Utility Source, LLC
Market Betas

Exhibit
Rebuttal Schedule D-4.9
Witness: Bourassa

	Company	Beta (β)[1]
1.	American States	0.70
2.	Aqua America	0.70
3.	California Water	0.70
4.	Connecticut Water	0.65
5.	Middlesex	0.70
6.	SJW Corp.	0.85
	Average	0.72

[1] Value Line Investment Analyzer data (Aug 5, 2013)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

Utility Source, LLC
Forecasts of Long-Term Interest Rates

Exhibit
Rebuttal Schedule D-4.10
Witness: Bourassa

Description	Average Aug-14	2015	2016	Average
Blue Chip Consensus Forecasts[1]	3.20% [1]	4.10% [2]	4.70% [2]	4.40%
Value Line[2]	3.20% [1]	3.90% [3]	4.40% [3]	4.20%
Average				4.30%

[1] Federal Reserve Monthly Average 30 Year U.S. Treasury
[2] June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury
[3] Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury

Utility Source, LLC
Computation of Current Market Risk Premium

Exhibit
Rebuttal Schedule D-4.11
Witness: Bourassa

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Market Risk Premium (MRP)
4	Feb	2.01%	2.21%	+	9.83%	=	12.04%	-	3.17%	=	8.87%
5	Mar	2.01%	2.20%	+	9.83%	=	12.04%	-	3.16%	=	8.88%
6	April	1.98%	2.16%	+	9.33%	=	11.49%	-	2.93%	=	8.56%
7	May	2.01%	2.20%	+	9.50%	=	11.70%	-	3.11%	=	8.59%
8	June	2.14%	2.34%	+	9.50%	=	11.84%	-	3.40%	=	8.44%
9	July	2.02%	2.21%	+	9.50%	=	11.71%	-	3.61%	=	8.10%
10	Aug	2.14%	2.34%	+	9.50%	=	11.84%	-	3.76%	=	8.08%
11	Sept	2.10%	2.30%	+	9.50%	=	11.80%	-	3.79%	=	8.01%
12	Oct	2.00%	2.19%	+	9.50%	=	11.69%	-	3.68%	=	8.01%
13	Nov	1.99%	2.18%	+	9.50%	=	11.68%	-	3.80%	=	7.88%
14	Dec 2013	1.93%	2.11%	+	9.50%	=	11.61%	-	3.89%	=	7.72%
15	Jan 2014	2.01%	2.21%	+	9.83%	=	12.04%	-	3.77%	=	8.27%
16	Feb	2.01%	2.20%	+	9.50%	=	11.70%	-	3.66%	=	8.04%
17	Mar	2.01%	2.20%	+	9.50%	=	11.70%	-	3.62%	=	8.08%
18	Apr	1.98%	2.16%	+	9.50%	=	11.66%	-	3.52%	=	8.14%
19	May	2.01%	2.20%	+	9.42%	=	11.62%	-	3.39%	=	8.23%
20	June	1.98%	2.16%	+	9.33%	=	11.50%	-	3.42%	=	8.08%
21	July	2.05%	2.24%	+	9.50%	=	11.74%	-	3.33%	=	8.41%
22	Aug	2.01%	2.20%	+	9.50%	=	11.70%	-	3.20%	=	8.50%
23											
24	Recommended	2.01%	2.20%	+	9.44%	=	11.65%	-	3.32%	=	8.33%
25											
26	Short-term Trends										
27	Recent Twelve Months Avg	2.01%	2.20%	+	9.51%	=	11.70%	-	3.59%	=	8.11%
28	Recent Nine Months Avg	2.00%	2.19%	+	9.51%	=	11.70%	-	3.53%	=	8.16%
29	Recent Six Months Avg	2.01%	2.19%	+	9.46%	=	11.65%	-	3.41%	=	8.24%
30	Recent Three Months Avg	2.01%	2.20%	+	9.44%	=	11.65%	-	3.32%	=	8.33%

Notes:

[1] Median Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data (monthly) - Value Line 1700 Stocks

[2] Expected Dividend Yield (D_1/P_0) equals current average dividend yield (D_0/P_0) times one plus growth rate(g).

[3] Median of Projected EPS, Projected DPS Growth and Projected BV Growth for VL 1700 stocks. Data from Value Line Investment Analyzer Software.

[4] Monthly average 30 year U.S. Treasury. Federal Reserve.

Utility Source, LLC
Traditional Capital Asset Pricing Model (CAPM)

Exhibit
Rebuttal Schedule D-4.12
Witness: Bourassa

	Rf[1]	+	beta[2]	x	RP_M		+	=	k
Historical Market Risk Premium CAPM	4.30%	+	0.72	x	6.70%	[3]	+	=	9.1%
Current Market Risk Premium CAPM	4.30%	+	0.72	x	8.33%	[4]	+	=	10.3%
Average									9.7%
Median									9.7%

[1] Forecasts of long-term treasury yields. See Rebuttal Schedule D-4.10.
[2] Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9.
[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2014 Classic Yearbook Table 11-5 Long-Horizon ERP 1926-2013.
[4] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11.

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on Duff and Phelps Risk Premium Study Data

Exhibit
Rebuttal Schedule D-4.13
Witness: Bourassa

	Company	Symbol	MV Equity[1]	Book Equity[1]	MVIC[1]	5 Yr Avg. Net Income	Total Assets[2]	5 Yr Avg. EBITDA[3]
			Measures of size (Millions)					
1	American States	AWR	$ 1,191	$ 492	$ 1,517	$ 45	$ 1,281	$ 141
2	Aqua America	WTR	$ 4,195	$ 1,535	$ 5,663	$ 155	$ 4,859	$ 430
3	California Water	CWT	$ 1,096	$ 598	$ 1,522	$ 42	$ 1,996	$ 146
4	Connecticut Water	CTWS	$ 359	$ 197	$ 534	$ 13	$ 579	$ 28
5	Middlesex	MSEX	$ 317	$ 189	$ 447	$ 14	$ 562	$ 39
6	SJW Corp.	SJW	$ 544	$ 322	$ 879	$ 21	$ 1,087	$ 87
	Utility Source, LLC	Proforma	NA	$ 3.7	NA	$ (0.2)	$ 11.1	$ 0.4

[1] From Zacks Investment Research data
[2] From Zacks Investment Research. From E-1 for subject utility.
[3] Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data ($ millions)

Company	Symbol	2013	2012	2011	2010	2009	Average
American States	AWR	$ 62.7	$ 54.0	$ 45.9	$ 33.2	$ 29.5	$ 45.1
Aqua America	WTR	$ 205.0	$ 197.0	$ 143.1	$ 124.0	$ 104.4	$ 154.7
California Water	CWT	$ 47.3	$ 49.0	$ 37.7	$ 37.7	$ 40.6	$ 42.4
Connecticut Water	CTWS	$ 18.3	$ 14.0	$ 11.3	$ 9.8	$ 10.2	$ 12.7
Middlesex	MSEX	$ 16.6	$ 14.0	$ 13.4	$ 14.3	$ 10.0	$ 13.7
SJW Corp.	SJW	$ 23.5	$ 22.0	$ 20.9	$ 24.4	$ 15.2	$ 21.2
Utility Source, LLC		(0.15)	(0.13)	(0.19)	(0.18)	(0.15)	$ (0.2)

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

[4] Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data ($ millions)

Company	Symbol	2013	2012	2011	2010	2009	Average
American States	AWR	$ 161.0	$ 154.0	$ 133.3	$ 134.4	$ 122.6	$ 141.1
Aqua America	WTR	$ 424.3	$ 439.0	$ 397.8	$ 473.2	$ 415.2	$ 429.9
California Water	CWT	$ 155.0	$ 151.0	$ 143.3	$ 155.7	$ 125.5	$ 146.1
Connecticut Water	CTWS	$ 43.4	$ 30.0	$ 24.2	$ 22.5	$ 20.3	$ 28.1
Middlesex	MSEX	$ 42.1	$ 39.0	$ 34.6	$ 43.3	$ 34.8	$ 38.7
SJW Corp.	SJW	$ 91.4	$ 90.0	$ 87.1	$ 75.4	$ 93.5	$ 87.5
Utility Source, LLC		$ (0.0)	$ 0.0	$ (0.0)	(0.01)	0.02	0.42

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance
EBITDA data for subject utility from E-1 and/or ACC reports

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Exhibit
Rebuttal Schedule D-4.14
Witness: Bourassa

MRP_{m+s} Estimates Using Duff & Phelps 2014 Valuation Handbook data (Unlevered)
Assumes 100% Equity and 0% debt
Data Smoothing with Regression Analysis
Smoothed Premium (RP_{m+s}) = Constant + X Coefficients * Log(Relevent Metric)

$RP_{unrelevered} = RP_{levered} - W_d/W_e*(\beta_u-\beta_d)*RP_{market}$
Where β_u = unlevered portfolio beta
β_d = debt beta, assumed to be 0.1
W_d = percentage of debt in capital structure
W_e = percentage of equity in capital structure
$RP_{levered}$ = levered realized risk premium

	MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)
Constant	19.089%	16.046%	19.463%	13.763%	18.027%	15.308%
X Coefficient(s)	-3.233%	-2.591%	-3.243%	-2.623%	-2.851%	-2.736%

		MRP_{m+s} (unlevered)						
Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1 American States	AWR	9.14%	9.07%	9.15%	9.43%	9.17%	9.43%	9.23%
2 Aqua America	WTR	7.38%	7.79%	7.29%	8.02%	7.52%	8.10%	7.68%
3 California Water	CWT	9.26%	8.85%	9.14%	9.49%	8.62%	9.39%	9.13%
4 Connecticut Water	CTWS	10.83%	10.10%	10.62%	10.87%	10.15%	11.35%	10.65%
5 Middlesex	MSEX	11.00%	10.15%	10.87%	10.78%	10.19%	10.96%	10.66%
6 SJW Corp.	SJW	10.24%	9.55%	9.92%	10.28%	9.37%	10.00%	9.89%
Average (unlevered)		9.64%	9.25%	9.50%	9.81%	9.17%	9.87%	9.54%
Utility Source, LLC		NA	14.57%	NA	NMF	15.04%	16.34%	15.32%

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Exhibit
Rebuttal Schedule D-4.15
Witness: Bourassa

Unlevered Portfilio Beta
(from 2014 Duff & Phelps Valuation Handbook - Table C)

	Company	Symbol	Unlevered Portfolio Beta (β_u) (Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	Average
1	American States	AWR	0.94	0.96	0.95	0.95	0.97	0.95	0.95
2	Aqua America	WTR	0.87	0.89	0.86	0.88	0.83	0.82	0.86
3	California Water	CWT	0.98	0.96	0.95	0.95	0.94	0.96	0.96
4	Connecticut Water	CTWS	0.96	0.98	0.97	0.97	0.99	1.03	0.98
5	Middlesex	MSEX	0.96	1.00	0.98	0.97	0.99	0.99	0.98
6	SJW Corp.	SJW	0.98	0.98	0.98	0.99	0.97	0.95	0.98
	Average		0.95	0.96	0.95	0.95	0.95	0.95	0.95
	Utility Source, LLC		NA	0.98	NA	1.01	1.05	1.03	1.02

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Exhibit
Rebuttal Schedule D-4.16
Witness: Bourassa

MRP Estimates Using Duff & Phelps 2014 Valuation Handbook data (Relevered)
Relevered Realized Risk Premium

$RP_{relevered} = RP_{unlevered} \bullet W_d/W_e*(\beta_u-\beta_d)*RP_{market}$

Where β_u = unlevered portfolio beta
β_d = debt beta, assumed to be 0.1
W_d = percentage of debt in capital structure
W_e = percentage of equity in capital structure
$RP_{unlevered}$ = unlevered realized risk premium from Table 2
RP_{market} = general equity risk premium for the market since 1963.

			MRP$_{m+s}$ (Relevered)						
Company	Symbol	W_d/W_e	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1 American States	AWR	27.4%	10.27%	10.22%	10.29%	10.57%	10.33%	10.57%	10.37%
2 Aqua America	WTR	35.0%	8.70%	9.15%	8.60%	9.36%	8.77%	9.34%	8.98%
3 California Water	CWT	38.9%	10.94%	10.49%	10.76%	11.11%	10.22%	11.02%	10.76%
4 Connecticut Water	CTWS	48.7%	12.88%	12.20%	12.69%	12.94%	12.27%	13.56%	12.76%
5 Middlesex	MSEX	40.9%	12.72%	11.95%	12.63%	12.53%	11.97%	12.75%	12.42%
6 SJW Corp.	SJW	61.5%	12.90%	12.20%	12.57%	12.97%	11.99%	12.56%	12.53%
Average MRP (Relevered)		42.06%	11.40%	11.04%	11.26%	11.58%	10.93%	11.63%	11.31%
Utility Source, LLC		0.00%	NA	14.57%	NA	NMF	15.04%	16.34%	15.32%

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Exhibit
Rebuttal Schedule D-4.17
Witness: Bourassa

Equity Risk Premium Adjustment and Other meterics used in Build-up Method

[1] Estimate of Current Market Risk Premium (RP_{market})	*5.00%*	*<<<< Current Duff and Phelps recommendation*
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2013)[1]	4.90%	
[3] Equity Risk Premium Adjustment ([1] - [2])	0.10%	
[4] Average MRP (relevered) for publicly traded water companies (from Rebuttal Schedule D-4.16)	11.31%	
[5] MRP (relevered) for publicly traded water companies (RP_{m+s}) ([3] + [4])	11.41%	
[6] Equity Risk Premium Adjustment ([3])	0.10%	
[7] Average MRP (relevered) for subject utility company (from Table D-4.16)	15.32%	
[8] MRP (relevered) for subject utility company (RP_{m+s}) ([6] + [7])	15.42%	
[9] *Industry Risk Premium (From Duff & Phelps for SIC 494 Water Supply Industry* Exhibit 5-7)	-4.24%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.96%[1]]	0.7184	
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-3.05%	
[12] Risk Free Rate (R_f)[2]	2.98%	

[1] From Duff & Phelps 2014 Valuation Handbook.
[2] Yield on 20 Yr U.S. Treasury September 30, 2014 (Federal Reserve)

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Exhibit
Rebuttal Schedule D-4.18
Witness: Bourassa

Cost of Equity (COE) Estimate using Build-up Method

$E(R_i) = R_f + RP_{m+s} + RP_i + RP_u$

Where:

$E(R_i)$ = Expected (indicated) rate of return
Rf = Risk-free rate of return. See Rebuttal Schedule D-4.17.
RPm+s = Market risk premium including size premium. See Rebuttal Schedule D-4.16.
RPi = Industry risk premium (adjusted). See Rebuttal Schedule D-4-17.
RP_u = Company-specific risk premium

	Sample Publicly Traded Water Utilities	Utility Source, LLC
R_f =	2.98%	2.98%
RP_{m+s} =	See Sched. D-4.16	
RP_i =	-3.05%	-3.05%
RP_u =	0.00%	0.00%

		Indicated COE $E(R_i)$						
Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1 American States	AWR	10.30%	10.26%	10.32%	10.60%	10.37%	10.60%	10.41%
2 Aqua America	WTR	8.73%	9.18%	8.63%	9.39%	8.80%	9.37%	9.02%
3 California Water	CWT	10.97%	10.52%	10.80%	11.15%	10.25%	11.06%	10.79%
4 Connecticut Water	CTWS	12.91%	12.23%	12.73%	12.98%	12.31%	13.60%	12.79%
5 Middlesex	MSEX	12.76%	11.98%	12.66%	12.56%	12.00%	12.78%	12.46%
6 SJW Corp.	SJW	12.93%	12.24%	12.60%	13.00%	12.03%	12.59%	12.57%
Average COE estimate		11.44%	11.07%	11.29%	11.61%	10.96%	11.67%	11.34%
Median COE Estimate		11.87%	11.25%	11.70%	11.85%	11.19%	11.83%	11.63%
Utility Source, LLC		NA	14.60%	NA	NMF	15.08%	16.37%	15.35%

Utility Source, LLC
Docket No. WS-04235A-13-0331

THOMAS J. BOURASSA
REBUTTAL TESTIMONY

October 3, 2014

EXHIBIT TJB-COC-RB1

Utility Source, LLC
Size Premium[1]

Exhibit
TJB-COC-RB1
Witness: Bourassa

	Beta(β)	Size Premium	Risk Premium for Small Water Utilities[7]
Mid-Cap Companies[2]	1.19	1.51%	
Low-Cap Companies[3]	1.30	2.31%	
Micro-Cap Companies[4]	1.43	4.36%	
Decile 10[5]	1.48	6.63%	3.77%

	Risk Premium for Small Water Utilities
Estimated Risk Premium for small water utilities[6]	0.99%

[1] Data from Table 7-10 of Morningstar, *Ibbotson SBBI 2013 Valuation Yearbook*.
[2] Mid-Cap companies includes companies with market capitalization between $1,912 million and $7,687 million.
[3] Low-Cap companies includes companies with market capitalization between $514 million and $1,909 million.
[4] Micro-Cap companies includes companies with market capitalization less than $514 million.
[5] Decile 10 includes companies with market capitalization between $1.14 million and $254 million.
[6] From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.
[7] Computed as the weighted differences between the Decile 10 risk premium and the inidicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

		Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1.	American States	$ 1,191	Low-Cap	2.31%	4.32%	0.166666667	0.72%
2.	Aqua America	$ 4,195	Mid-Cap	1.51%	5.12%	0.166666667	0.85%
3.	California Water	$ 1,096	Low-Cap	2.31%	4.32%	0.166666667	0.72%
4.	Connecticut Water	$ 359	Micro-Cap	4.36%	2.27%	0.166666667	0.38%
5.	Middlesex	$ 317	Micro-Cap	4.36%	2.27%	0.166666667	0.38%
6.	SJW Corp.	$ 544	Low-Cap	2.31%	4.32%	0.166666667	0.72%
			Average	2.86%	Wghtd Size Prem. for Small Utilities		3.77%

ATTACHMENT 3

Steve Wene, No. 019630
MOYES SELLERS & HENDRICKS LTD.
1850 N. Central Avenue, Suite 1100
Phoenix, Arizona 85004
(602)-604-2189
swene@law-msh.com
Attorneys for Utility Source, L.L.C.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP, CHAIRMAN
GARY PIERCE
BOB BURNS
SUSAN BITTER SMITH
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-13-0331 **REBUTTAL TESTIMONY OF LONNIE McCLEVE**

Table of Contents

I. GENERAL INFORMATION AND POSITIONS

Q. Please state your name and your role in this matter.

A. Lonnie McCleve. I am an owner of Utility Source, LLC ("Company"). I oversee the Company. Typically, the day to day operations are handled by the Company's office manager and system manager, but they keep me informed regarding significant issues. The Company's other owner, Gary Bulechek, will sometimes oversee certain projects and he will keep me informed as to those undertakings as well. I have held this position since the Company was granted a CC&N in 2005. I have also developed several properties over time, including Flagstaff Meadows, which is served by the Company.

Q. What is the purpose of your testimony?

A. I am commenting on the non-financial issues raised by Staff and the interveners. I will focus on those issues where the Company has a contrary view to those expressed by Staff or an intervener.

II. RESPONSE TO CERTAIN STAFF POSITIONS

Q. Staff's engineer recommended that the Company finish constructing the block wall around Well 2 and install a functioning gate. Does the Company agree with this recommendation?

A. The Company understands that it has to have site control of the well and needs to have a fence, wall, or some type of enclosure to keep people away from the well. The Company understands this requirement and agrees to finish the work. However, based on our experience, we know the county may have specific requirements as to what type of structure is built and where it is located. All we ask is that the recommendation be worded so we are required to build a structure that complies with the enclosure rule, but leave some flexibility to enable the Company to build a cost-effective structure.

Q. Staff's engineer recommended that the Company adopt five BMPs selected by Staff. Does the Company agree with this recommendation?

A. No. The Company understands that the Commission no longer routinely requires BMPs. Our understanding is that BMPs are usually adopted when water loss is high. Here, the Company's water loss is around 5%, which is very good for a small water company. So there is no need for BMPs. Further, if BMPs are required, then the Company should be able to select which ones are most appropriate rather than Staff dictating those to apply.

Q. Regarding Deep Well 4, Staff recommends that the Company be required to get Commission approval to sell Deep Well 4. Does the Company agree with this recommendation?

A. The Company has no intention of selling Deep Well 4, so this is not an issue.

Q. Staff also recommends that the Company cannot require a developer to pay for construction of a new well. Does the Company agree with this recommendation?

A. No. Neither the Company nor Staff knows what a developer may plan. A developer may want to construct a planned community where the demand is beyond the current capacity of the Company system. In such a case, it might be prudent to have the developer pay for another well.

Q. Staff's engineer recommends that the Company repair the wastewater treatment plant mixed media filter. Does the Company agree with this recommendation?

A. The Company accepts this recommendation, provided the costs are reasonable, which should be less than $10,000. To be clear, the plant meets the effluent standards for producing irrigation water without this equipment being operational.

Q. Discuss Staff's testimony regarding the standpipe that the Company has built.

A. My partner, Gary Bulechek, was the point person on this project. The Company was selling bulk water from a fire hydrant, primarily to contractors and commercial users. Coconino County staff approached the Company and said it would no longer allow the Company to operate in this manner and would need to build a loading station. Put another way, the Company built the new load station to comply with the County rules and staff comments.

During this time, the Company was making approximately $3,500 a year from bulk water sales through the hydrant. The Company had no intention of making this an expensive building project. But by the time we hired an engineer, followed his advice, and then had to make multiple improvements demanded by the County, we had spent around $50,000 and the project was still not complete. Gary and I decided it made economic sense to finish the project so that the costs expended could be recovered over time.

As far as revenues, the Company believes it will generate more revenue than the $3,500 a year gained from sales through the fire hydrant. How much more is anyone's guess. Staff seems to assert that the Company will sell 200,000 gallons every month, which is very improbable especially during the winter. The 200,000-gallon estimate is the maximum that could be served, not a projection of what will be served. Put another way, it is a peak demand estimate that might occur some year; not a monthly estimate that will occur every year.

Q. Staff recommends the Company file a new rate case with a 2015 test year based upon its belief that the standpipe operation could generate $52,000 a year. Do you agree with Staff's recommendation?

A. No. First, this rate case will still be ongoing in 2015 and we will not have had time to recover our rate case expense by the time we have to file another case. The new rates will not be in effect for a year by the time we have another test year. Adding the cost of another rate case so soon would be a tremendous burden on the customers. If Staff is concerned about the Company over-earning, then it might be prudent to state that the Company needs to file another rate case if Company revenues exceed the revenue requirement by 10%. But to require a new rate case when we do not know the impact of the fill station seems to build additional cost without a factual basis. My understanding is the Commission usually requires a small water company to file for a rate case once every five years, and we are fine with that approach.

III. FIRE PROTECTION PLANT ISSUES

Q. The interveners raised concerns regarding fire protection plant inclusion in rate base and reliability. Please comment on those issues.

A. The Company has 34 fire hydrants. My understanding is that fire hydrants are properly included in rate base. The reliability issues have been resolved. This was confirmed by the local fire chief, who noted that he understood that adequate repairs have been made. *See* Mark Sachara email dated July 29, 2014 (enclosed in filing by Terry Fallon). In 2011, an electrical issue arose and was repaired in a reasonable time. Between 2012 and 2013, there were mechanical issues that required repeated repair. A bolt repeatedly broke, even after upgrading the quality of the bolt twice. After the fourth bolt, which was custom made with dense material, broke the Company had a machinist mill a retention system and that has solved the issue to date. Please note that the dates provided herein are more accurate than what was previously provided in the response to Nielsen's data request 1.6.

IV. RESPONSE TO NIELSEN ISSUES

Q. Intervenor Nielsen argues that Utility Source is not in compliance with Commission Decision 67446. Do you agree?

A. No. Decision 72261 acknowledged that Staff concluded the Company complied with Decision 67446, ADWR, and ADEQ. The Commission adopted Staff's recommendation and found that the Company was in compliance and the performance bond held to ensure performance was released.

Nielson's primary concern is the ownership of land. Right after Decision 72261 was issued, the Company instructed its attorney and engineer to transfer real property rights at issue to the Company. To secure compliance, the Company filed two deeds and two easements transferring rights to the Company. The Company trusted its consultants to perform the task properly. If there are any discrepancies that were not previously resolved and that exist today, the Company will rectify them. The Company and its owners fully intend to have the Company own the production wells that concern Nielson.

One issue that needs to be addressed is the registration of the wells in the ADWR data base. The Company is aware that several of its wells are still registered under other entities and the Company will rectify this issue as soon as practical.

Q. Intervener Nielsen argues Deep Well 4 should not be in rate base for various reasons. Please comment on his position.

A. The Company has not requested Deep Well 4 be included in rate base. While Mr. Bulechek is in charge of this project, my understanding is that new source testing was performed on this well around 2005-06 and the water quality is good. This well is currently offline, but it is our intention to begin using it in the near future. The Company is going to file all finalization documents soon because the intent is to start using this well as a production well for the system.

Q. Intervener Nielson seems to criticize comments you allegedly made concerning water rates and the development of Flagstaff Meadows Unit III and the proposed Loves Travel Center. Please comment.

A. I am familiar with the expenses necessary to run these utilities. On several occasions, I have stated publicly that unless the community grows with new customers, utility rates could double. As demonstrated by our rate applications, as well as the analysis by Staff and RUCO, my projection has proven accurate. The Company would like more customers to help spread the cost of operating the utilities.

Q. Intervener Nielsen alleges either the Company or its ownership has withheld information and documents relating to the period when the utilities were operated by the property owners' association. Please comment.

A. The allegation is false. We turned over the records to the property owners' association years ago. The issues related to the property owners' association operating the utilities and the rate base has already been addressed by the Commission.

Q. Nielsen also alleges that the Company has a line extension agreement with Empire Builders. Do you have such an agreement?

A. No. Nielsen is raising concerns about events that occurred approximately ten years ago. I do not recall that we executed a line extension agreement. Our attorney who would have addressed this issue is retired and the Empire Builders' project went bankrupt. We reviewed our files and did not find an extension agreement with Empire Builders or any entity associated with the development it proposed. On September 12, 2014, the Company responded to Nielsen's second set of data requests by stating the Company does not have such agreements.

Q. Nielsen alleges the utilities are overbuilt. Do you agree?

A. No. I would like to point out that Staff's engineer did not believe the systems are overbuilt either.

Q. Nielsen alleges no hydrologist was consulted when Deep Wells 1 and 2 were constructed. Is that true?

A. No. When siting Deep Well 3, however, the hydrologist employed different methods, which worked better.

Q. Comment on Nielsen's statements that the Company did not respond to his data requests relating to peak daily flows in March of 2012.

A. The Company staff read the meter. We do not know why the flow was higher that month.

Q. Does this conclude your rebuttal testimony?

A. Yes.

ORIGINAL

Steve Wene, No. 019630
MOYES SELLERS & HENDRICKS LTD.
1850 N. Central Avenue, Suite 1100
Phoenix, Arizona 85004
(602)-604-2189
swene@law-msh.com
Attorneys for Utility Source, L.L.C.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP, CHAIRMAN
GARY PIERCE
BOB BURNS
SUSAN BITTER SMITH
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-13-0331 **NOTICE OF FILING REJOINDER TESTIMONY**

Utility Source, L.L.C. ("Company"), hereby files rejoinder testimonies described below:

- Rejoinder Testimony of Tom Bourassa regarding Rate Base, Incomes Statement and Rate Design (Attachment 1);
- Rejoinder Testimony of Tom Bourassa regarding Cost of Capital (Attachment 2); and
- Rejoinder Testimony of Lonnie McCleve (Attachment 3).

Steve Wene

Steve Wene

Original and thirteen (13) copies
of the foregoing filed this
7th day of November, 2014 with:

Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copies of the foregoing mailed
this 7th day of November, 2014 to:

Wesley Van Cleve
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Daniel W. Pozefsky
Chief Counsel
Residential Utility Consumer Office
1110 West Washington Street
Suite 220
Phoenix, Arizona 85007

Erik Nielsen
4680 N. Alpine Drive
P.O. Box 16020
Bellemont, Arizona 86015

Terry Fallon
4561 Bellemont Springs Drive
Bellemont, Arizona 86015

Donnelly Herbert

ATTACHMENT 1

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-13-0331

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

(RATE BASE, INCOME STATEMENT AND RATE DESIGN)

November 7, 2014

TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of the applicant, Utility Source, LLC ("USLLC" or the "Company"). USLLC is seeking changes in its rates and charges for water utility service in its certificated service area, which area is located in Yavapai County.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THE INSTANT CASE?

A. Yes, I have previously submitted direct and rebuttal testimony in support of the request for new rates in this docket.

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. To respond to the surrebuttal filings by Staff and RUCO relating to rate base, income statement and rate design for USLLC. In a second, separate volume of my rejoinder testimony, I will provide responses to Staff and RUCO on the cost of capital, the rate of return applied to the fair value rate base, and the determination of operating income.

II. SUMMARY OF USLLC'S REJOINDER POSITION.

Q. WHAT ARE THE REVENUE INCREASES FOR THE WATER AND WASTEWATER DIVISIONS THAT THE COMPANY IS PROPOSING IN THIS REJOINDER TESTIMONY?

A. For the water division, the Company proposes a total revenue requirement of $432,967, which constitutes an increase in revenue of $226,783, or 109.99 percent over adjusted test year revenues. For the wastewater division, the Company proposes a total revenue requirement of $328,900 which constitutes an increase in revenues of $209,436 or 175.31 percent over adjusted test year revenues.

Q. HOW DO THESE COMPARE WITH THE COMPANY'S REBUTTAL FILING?

A. The total revenue requirement and required rate increase is slightly less for the water division. This is because the Company has adopted RUCO's recommended adjustment to water testing expense which results in about a $1,100 reduction to expenses. The total revenue requirement and required rate increase is the same for the wastewater division. The Company continues to recommend an 11.0 percent return on equity. Based on a capital structure consisting of 100 percent equity and 0 percent debt, the Company recommends a weighted cost of capital and return on its fair value rate base ("FVRB") of 11.0 percent. I discuss the Company's proposed return on equity, cost of debt, and capital structure in my separate rejoinder cost of capital testimony.

Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE OF THE PROCEEDING?

A. For the water division, the proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company Rebuttal	$432,967	$226,783	109.99%
Staff	$412,100	$206,184	99.87%
RUCO	$342,275	$136,091	66.00%
Company Rejoinder	$431,858	$225,674	109.45%

For the wastewater division, the proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company Rebuttal	$328,900	$209,436	175.31%
Staff	$316,668	$197,204	165.07%
RUCO	$279,524	$160,060	133.98%
Company Rejoinder	$328,900	$209,436	175.31%

III. RATE BASE

A. Water Division Rate Base.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS FOR THE WATER DIVISION?

A. Yes, for the water division the rate base proposed by the parties proposing a rate base in the case, the Company, Staff and RUCO, are as follows:

	OCRB	FVRB
Company Rebuttal	$1,575,194	$1,575,194
Staff	$1,604,879	$1,604,879
RUCO	$1,575,194	$1,575,194
Company Rejoinder	$1,575,194	$1,575,194

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE FOR THE WATER DIVISION?

A. Yes. The Company's rejoinder rate base adjustments to the water division's OCRB are detailed on rejoinder schedules B-2, pages 3 through 6. Rejoinder Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rejoinder OCRB. The Company is not proposing any changes or additional adjustments to the water division rate base. The Company's rejoinder adjustments are the same as the Company's rebuttal adjustments.

1. **<u>Remaining Issues in Dispute.</u>**

a. **<u>Accumulated Depreciation (A/D).</u>**

Q. **PLEASE DISCUSS THE DISAGREEMENT BETWEEN STAFF AND THE COMPANY REGARDING THE ACCUMULATED DEPRECIATION BALANCE?**

A. The Company proposes an A/D balance of $716,486[1] while Staff proposes an A/D balance of $667,131[2]; a difference of $49,355.

Q. **DID STAFF EXPLAIN WHY ITS ACCUMULATED DERPECIATION EXPENSE WAS LOWER?**

A. No.[3] Since Staff did not explain why its A/D balance was lower, I reviewed the Staff work papers and have found that the $49,354 difference represents an additional year of depreciation related to Deep Well #4. In other words, Staff removes an additional year of depreciation for Deep Well #4.

Q. **DIDN'T THE COMPANY REMOVE ALL ACCUMULATED DEPRECIATION ON DEEP WELL #4 THROUGH THE END OF 2012 IN ITS DIRECT FILING?**

A. Yes.[4] There is no reason that I can find for the removal of an additional full year of depreciation. Accordingly, The Commission should reject the Staff recommended A/D balance.

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[1] See USLLC Rejoinder Water Division Schedule B-2, page 2.

[2] See Staff Surrebuttal Water Division Schedule JLK-W3.

[3] See Surrebuttal Testimony of Jorn L. Keller ("Keller Sb.") at 5.

[4] See USLLC Direct Water Division Schedule B-2, page 4.1.

b. Accumulated Amortization on Contributions-in-aid of Construction (CIAC).

Q. PLEASE DISCUSS THE DISAGREEMENT BETWEEN STAFF AND THE COMPANY REGARDING THE ACCUMULATED AMORTIZATION BALANCE?

A. The Company proposes an Accumulated Amortization ("A.A.") balance of $95,670[5] while Staff proposes an A/D balance of $76.001[6]; a difference of $19,669. As I explained in my rebuttal testimony, the Company's proposed A.A. balance was reconstructed according the typical and customary method used by both Staff and myself in the past.[7] In the instant case, Staff has inexplicably changed its past practice of using the composite depreciation rate for each year for computing amortization and instead uses the prior test year composite depreciation rate.

Q. HAS STAFF EXPLAINED WHY IT IS USING AN AMORTIZATION METHOD INCONSISTENT WITH ITS PAST PRACTICES?

A. No.

Q. HAS STAFF USED A DIFFERENT METHOD FOR COMPUTING ACCUMULATED AMORTIZATION FOR THE WASTEWATER DIVISION?

A. Yes. Staff accepted the Company's direct proposed A.A. balance for the wastewater division which was based upon the same method the Company used for its water division. So, the method used by Staff for re-computing the A.A. balance for the water division is inconsistent with the method used for the wastewater

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[5] See USLLC Rejoinder Water Division Schedule B-2, page 2.
[6] See Staff Surrebuttal Water Division Schedule JLK-W6.
[7] See Rebuttal Testimony of Thomas J. Bourassa ("Bourassa Rb.") at 7.

division.

Q. ARE THERE ANY REMAINING WATER DIVISION RATE BASE ISSUES BETWEEN THE PARTIES?

A. No.

B. Wastewater Division Rate Base.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS FOR THE WATER DIVISION?

A. Yes, for the water division the rate bases proposed by the parties in the case, the Company, Staff and RUCO, are as follows:

	OCRB	FVRB
Company Rebuttal	$825,856	$825,856
Staff	$825,880	$825,880
RUCO	$825,856	$825,856
Company Rejoinder	$825,856	$825,856

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE FOR THE WASTEWATER DIVISION?

A. The Company's rejoinder rate base adjustments to the wastewater division's OCRB are detailed on rejoinder schedules B-2, pages 3 through 6. Rejoinder Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rejoinder OCRB. The Company is not proposing any changes or additional adjustments to the wastewater division rate base. The Company's rejoinder adjustments are the same as the Company's rebuttal adjustments.

1. Remaining Issues in Dispute.

a. Accumulated Depreciation (A/D).

Q. PLEASE DISCUSS THE DISAGREEMENT BETWEEN STAFF AND THE COMPANY REGARDING THE ACCUMULATED DEPRECIATION

BALANCE?

A. The Company proposes an A/D balance of $455,092[8] while Staff proposes an A/D balance of $455,064[9]; a difference of $28.

Q. WHAT IS THE CAUSE OF TH DIFFERENCE?

A. The Company agreed with Staff's reclassification of $421 from account 390 – Office Furniture and Equipment to account 390.1 – Computers and Software.[10] These two accounts have depreciation rates of 6.67 percent and 20 percent, respectively. However, Staff did not adjust its A/D balance to reflect the change to the account balances. Accordingly, The Commission should reject the Staff recommended A/D balance.

b. <u>Accumulated Amortization of Contributions in Aid of Construction (CIAC).</u>

Q. PLEASE DISCUSS THE DISAGREEMENT BETWEEN STAFF AND THE COMPANY REGARDING THE ACCUMULATED AMORTIZATION BALANCE?

A. The Company proposes an Accumulated Amortization ("A.A.") balance of $86,715[11] while Staff proposes an A/D balance of $86,711[12]; a difference of $4. This difference is the result of the change to the amortization rate for 2012 stemming from the reclassification of plant as described above. , Staff did not adjust its A.A. balance to reflect the change to plant and the amortization rate. Accordingly, The Commission should reject the Staff recommended A.A. balance.

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[8] See USLLC Rejoinder Wastewater Division Schedule B-2, page 2.
[9] See Staff Surrebuttal Wastewater Division Schedule JLK-WW3.
[10] See Bourassa Rb. at 8 and Staff Surrebuttal Wastewater Division Schedule JLK-WW4.
[11] See USLLC Rejoinder Schedule B-2, page 2.
[12] See Staff Surrebuttal Schedule JLK-W6.

Q. ARE THERE ANY REMAINING WASTEWATER DIVISION RATE BASE ISSUES BETWEEN THE PARTIES?

A. No.

IV. <u>INCOME STATEMENT.</u>

A. <u>Water Division Revenue and Expenses.</u>

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company rejoinder adjustments for the water division are detailed on Rejoinder Schedule C-2, pages 1-12. The rejoinder income statement with adjustments is summarized on Rejoinder Schedule C-1, page 1-2. The Company is proposing one change to expenses described below. There are no other changes or additional adjustments to the wastewater division revenues and/or expenses. The Company's rejoinder adjustments to revenues and/or expenses other than the one change are the same as the Company's rebuttal adjustments.

1. <u>Water Testing Expense</u>

Q. PLEASE DISCUSS THE COMPANY PROPOSED CHANGE TO WATER TESTING EXPENSE.

A. As reflected in rejoinder adjustment number 5, the Company is adopting RUCO's proposed water testing expense of $374.[13] As explained by RUCO, the Company's miscellaneous expense already includes the MAP testing cost totaling $1,096.[14] The MAP testing expense plus the $374 recommendation total $1,470 which

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[13] See Surrebuttal Testtimony of Jeffery M. Michlik ("Michlik Sb.") at 6.

[14] *Id.*

matches the Staff recommendation as set forth in Mr. Thompson's direct testimony (Table C).

2. Remaining Issues In Dispute.

a. Rate Case Expense

Q. **PLEASE DISCUSS THE DIFFERENCES IN RATE CASE EXPENSE BETWEEN THE PARTIES.**

A. All of the parties are in agreement on the total level of rate case expense for the water division of $50,000. The Company and Staff agree on a 3-year amortization period and a normalized annual expense of $16,667.[15] RUCO on the other hand excludes rate case expense from operating expenses and proposes a surcharge of $16,667 based upon a 3-year recovery period.[16]

Q. **IS A SURCHARGE RECOVERY APPROACH WARRANTED IN THIS CASE?**

A. No, for at least two reasons. First, the use of a surcharge recovery approach is rarely used. The problem with a surcharge recovery approach is that the Company will incur regulatory expense (compliance filings, etc.) between rate cases which are not reflected in the test year expenses. A normalized expense amount also makes more sense as it treats rate case expense like other expenses. Expenses in the future may be higher (or lower) than the adjusted test year level and the actual earnings which be lower (or higher) than the authorized level. Second, the Company has agreed to file for another rate case and the Company now agrees with Staff that the timing of another rate case should correspond to the amortization period.[17]

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[15] Bourassa Rb. at 14.
[16] Michlik Sb. at 18.
[17] Keller Sb. at 7.

b. **<u>Income Tax Expense</u>**

Q. PLEASE DISCUSS THE DIFFERENCE IN THE PROPOSED INCOME TAXES BETWEEN THE PARTIES.

A. The Company and Staff propose recovery of income taxes whereas RUCO does not.[18] Based upon current Commission policy, RUCO's position should be rejected.

B. **<u>Wastewater Division Revenue and Expenses.</u>**

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WASTEWATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company rejoinder adjustments for the wastewater division are detailed on Rejoinder Schedule C-2, pages 1-12. The rejoinder income statement with adjustments is summarized on Rejoinder Schedule C-1, page 1-2. The Company is not proposing any changes or additional adjustments to the wastewater division revenues and/or expenses. The Company's rejoinder adjustments to revenues and/or expenses are the same as the Company's rebuttal adjustments.

1. **<u>Remaining Issues In Dispute.</u>**

a. **<u>Rate Case Expense</u>**

Q. PLEASE DISCUSS THE DIFFERENCES IN RATE CASE EXPENSE BETWEEN THE PARTIES.

A. All of the parties are in agreement on the total level of rate case expense for the water division of $50,000. The Company and Staff agree on a 3-year amortization period and a normalized annual expense of $16,667.[19] RUCO on the other hand

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[18] See Surrebuttal Testtimony of Jeffery M. Michlik ("Michlik Sb.") at 8.
[19] Bourassa Rb. at 14.

excludes rate case expense from operating expenses and proposes a surcharge of $16,667 based upon a 3-year recovery period.[20] I have previously discussed (at page 9) why a 3-year amortization is appropriate in the instant case and will not repeat that testimony here.

b. **Income Tax Expense**

Q. PLEASE DISCUSS THE DIFFERENCE IN THE PROPOSED INCOME TAXES BETWEEN THE PARTIES.

A. The Company and Staff propose recovery of income taxes whereas RUCO does not.[21] Based upon current Commission policy, RUCO's position should be rejected.

V. RATE DESIGN (H SCHEDULES).

A. Water Division.

Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER SERVICE?

A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" Meter	$ 40.61
3/4" Meter	$ 40.61
1" Meter	$ 100.52
1 1/2" Meter	$ 203.04
2" Meter	$324.86
3" Meter	$649.72
4" Meter	$1,015.19

[20] Michlik Sb. at 18.

[21] See Surrebuttal Testtimony of Jeffery M. Michlik ("Michlik Sb.") at 8.

6” Meter $2,030.38

Gallons in minimum 0

COMMODITY RATES

5/8”X3/4” –Res. & Com	1 to 4,000	$ 8.20
	4,001 to 9,000	$15.70
	Over 9,000	$21.70
3/4” – Res. & Com.	1 to 4,000	$ 8.20
	4,001 to 9,000	$15.70
	Over 9,000	$21.70
1” Meter – Res. & Com.	1 to 27,000	$15.70
	Over 27,000	$21.70
1 ½” Meter – Res. & Com.	1 to 57,000	$15.70
	Over 57,000	$21.70
2” Meter– Res. & Com.	1 to 94,000	$15.25
	Over 94,000	$21.70
3” Meter– Res. & Com.	1 to 195,000	$15.25
	Over 195,000	$21.70
4” Meter– Res. & Com.	1 to 309,000	$15.70
	Over 309,000	$21.70
6” Meter– Res. & Com.	1 to 615,000	$15.25
	Over 615,000	$21.70
Irrigation Meters	All gallons	$15.70
Standpipe/Bulk Water	All gallons	$21.70
Construction Meters	All gallons	$21.70

Q. WHAT WILL BE THE 5/8X3/4 INCH RESIDENTIAL CUSTOMER AVERAGE MONTHLY BILL UNDER THE NEW RATES?

A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a 3/4 inch residential customer using an average 4,123 gallons is $75.33 – a $36.76 increase over the present monthly bill or a 95.27 percent increase.

Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN FROM THE REBUTTAL FILING?

A. No.

Q. PLEASE COMMENT ON THE PROPOSED WATER RATE DESIGN OF STAFF.

A. The Company continues to be concerned with the Staff rate design. The Staff rate design will lead to greater amounts of revenue erosion when conservation occurs as compared to the Company's rate design. One reason for this higher revenue instability is that a greater portion of the revenue requirement is recovered via the commodity rates under the Staff rate design than the Company rate design. Under the Staff's design less than 37 percent of the revenue requirement is recovered from the monthly minimums whereas under the Company's rate design about 40 percent of the revenues are recovered from the monthly minimums. Another reason for the greater revenue stability is that under the Staff rate design more revenues are recovered from the higher commodity rates. About 47 percent of the revenue requirement is recovered from the two highest commodity rates under the Staff rate design while about 38 percent of the revenue requirement is recovered from the two highest commodity rates. When conservation occurs, the commodity revenues will decrease to a greater extent under the Staff rate design as compared to the Company rate design.

Q. DO YOU HAVE SIMILAR REVENUE STABILITY CONCERNS WITH RUCO'S PROPOSED RATE DESIGN?

A. Yes, RUCO's rate design recovers about 36 percent of revenues from the monthly minimums, which is significantly lower than the Company's recovery at about 40 percent. Further, like the Staff rate design, a greater portion of the revenue requirement is recovered from the highest cost commodity rates. RUCO's rate design recovers about 40 percent of revenues from the two highest commodity rates.

1. <u>Other Tariff Changes</u>.

Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND STAFF ON THE COMPANY'S PROPOSED METER AND SERVICE LINE INSTALLATION CHARGES?

A. No, the Company and Staff are in agreement.

Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND STAFF ON THE COMPANY'S PROPOSED MISCELLANEOUS CHARGES?

A. No.

B. <u>Wastewater Division.</u>

Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WASTEWATER SERVICE?

A. The Company's proposed rates are:

MONTHLY CHARGE

5/8" x 3/4" Meter	$ 53.00
3/4" Meter	$ 53.00
1" Meter	$132.50
1 1/2" Meter	$265.00

2" Meter	$424.00
3" Meter	$848.00
4" Meter	$1,325.00
6" Meter	$2,650.00

Rate per 1,000 gallons of water use:

Residential	$ 5.31
Car washes, laundromats, commercial, manufacturing	$ 5.20
Hotels and motels	$ 6.97
Restaurants	$ 8.61
Industrial Laundries	$ 7.63
Waste Haulers	$155.79
Restaurant Grease	$136.32
Treatment Plant Sludge	$155.79
Mud Slump Waste	$486.85

Q. **WHAT WILL BE THE 3/4 INCH RESIDENTIAL CUSTOMER AVERAGE MONTHLY BILL UNDER THE NEW RATES?**

A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a 3/4 inch residential customer using an average 4,123 gallons is $74.91 – a $50.83 increase over the present monthly bill or a 211.13% increase.

Q. **HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN?**

A. No.

Q. **PLEASE COMMENT ON THE PROPOSED WASTEWATER RATE DESIGN OF STAFF AND RUCO.**

A. Staff continues to propose a wastewater rate design that does not include a usage charge for residential customers. The Company disagrees with the Staff rate design because it does not distinguish between those customers who place more demands on the wastewater system because they use more water and/or because their wastewater is more costly to treat.

RUCO continues to propose a wastewater rate design that does not include any monthly minimums. All of the wastewater revenues are recovered via usage charges. The Company disagrees with the RUCO rate design because it leads to higher revenue instability and can lead to wide fluctuations in monthly revenues (seasonality).

The Company also disagrees with the proposal to phase-in rates because the need for the rates as proposed has been established. Further, the Company needs the revenue at this time and delay will have adverse impacts on the Company.

Q. **DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?**

A. Yes.

Water Rejoinder Schedules

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Fair Value Rate Base	$ 1,575,194
Adjusted Operating Income	(5,009)
Current Rate of Return	-0.32%
Required Operating Income	$ 173,271
Required Rate of Return	11.00%
Operating Income Deficiency	$ 178,280
Gross Revenue Conversion Factor	1.2658
Increase in Gross Revenue Requirement	$ 225,674
Adjusted Test Year Revenues	$ 206,184
Increase in Gross Revenue Revenue Requirement	$ 225,674
Proposed Revenue Requirement	$ 431,858
% Increase	109.45%

Customer Classification		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
3/4 Inch	Residential	$ 159,301	$ 326,338	$ 167,038	104.86%
3/4 Inch	Commercial	322	810	489	152.01%
2 Inch	Commercial	38,120	89,670	51,550	135.23%
2 Inch	Irrigation	1,776	3,898	2,122	119.50%
Bulk/Construction		3,482	7,323	3,841	110.29%
Revenue Annualization		328	632	304	92.85%
Subtotal		$ 203,328	$ 428,672	$ 225,343	110.83%
Other Water Revenues		3,441	3,441	-	0.00%
Reconciling Amount		(585)	(255)	330	-56.41%
Rounding				1	0.00%
Total of Water Revenues		$ 206,184	$ 431,858	$ 225,674	109.45%

SUPPORTING SCHEDULES:
B-1
C-1
C-3
H-1

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 2,496,640	$ 2,496,640
3	Less: Accumulated Depreciation	716,486	716,486
4			
5	Net Utility Plant in Service	$ 1,780,154	$ 1,780,154
6			
7	Less:		
8	Advances in Aid of Construction	-	-
9			
10	Contributions in Aid of Construction	294,745	294,745
11			
12	Accumulated Amortization of CIAC	(95,670)	(95,670)
13			
14	Customer Meter Deposits	5,885	5,885
15	Deferred Income Taxes & Credits	-	-
16			
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepayments	-	-
23	Materials and Supplies	-	-
24	Allowance for Working Capital	-	-
25			
26			
27			
28	Total Rate Base	$ 1,575,194	$ 1,575,194
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42			
43	SUPPORTING SCHEDULES:		
44	B-2		
45	B-3		
46	B-5		
47	E-1		
48			
49			
50			
51			
52			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at end of Test Year	Proforma Adjustment	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 2,496,640	-	$ 2,496,640
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	726,406	(9,919)	716,486
7				
8				
9	Net Utility Plant			
10	in Service	$ 1,770,234		$ 1,780,154
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	294,745	-	294,745
18				
19	Accumulated Amortization of CIAC	(96,938)	1,267	(95,670)
20				
21	Customer Meter Deposits	5,885	0	5,885
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				
26	**Plus:**			
27	Unamortized Finance			
28	Charges	-	-	-
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				-
34	Total	$ 1,566,542		$ 1,575,194
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45	SUPPORTING SCHEDULES:			
46	B-2, pages 2			
47	E-1			
48				
49				
50				

RECAP SCHEDULES:
B-1

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at end of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 Customer Security Deposits	5 Intentionally Left Blank	Rejoinder Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 2,496,640	-					$ 2,496,640
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	726,406		(9,919)				716,486
7								
8								
9	Net Utility Plant							
10	in Service	$ 1,770,234	$ -	$ 9,919	$ -	$ -	$ -	$ 1,780,154
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	294,745						294,745
18								
19	Accumulated Amort of CIAC	(96,938)			1,267			(95,670)
20								
21	Customer Meter Deposits	5,885						5,885
22	Accumulated Deferred Income Taxes	-						-
23								
24								
25	**Plus:**							
26	Unamortized Finance							
27	Charges	-						-
28	Prepayments	-						-
29	Materials and Supplies	-						-
30	Allowance for Cash Working Capital	-			-			-
31								
32	Total	$ 1,566,542	$ -	$ 9,919	$ (1,267)	$ -	$ -	$ 1,575,194
33								
34								
35								
36	SUPPORTING SCHEDULES:							
37	B-2, pages 3-5							
38	E-1							
39								
40								

RECAP SCHEDULES:
B-1

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rejoinder Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Adjusted Original Cost	Adjustments A: Adjustments to Reconcile Plant to Reconstruction	B: Intentionally Left Blank	C: Intentionally Left Blank	D: Intentionally Left Blank	E: Intentionally Left Blank	Rejoinder Adjusted Original Cost
1									
2									
3									
4									
5									
6	301	Organization Cost	-	-					-
7	302	Franchise Cost	-	-					-
8	303	Land and Land Rights	210,000	-					210,000
9	304	Structures and Improvements	72,997	-					72,997
10	305	Collecting and Impounding Res.	-	-					-
11	306	Lake River and Other Intakes	-	-					-
12	307	Wells and Springs	1,353,539	-					1,353,539
13	308	Infiltration Galleries and Tunnels	-	-					-
14	309	Supply Mains	-	-					-
15	310	Power Generation Equipment	89,125	-					89,125
16	311	Electric Pumping Equipment	158,711	-					158,711
17	320	Water Treatment Equipment	5,487	-					5,487
18	320.1	Water Treatment Plant	-	-					-
19	320.2	Chemical Solution Feeders	-	-					-
20	330	Dist. Reservoirs & Standpipe	321,452	-					321,452
21	330.1	Storage tanks	-	-					-
22	330.2	Pressure Tanks	-	-					-
23	331	Trans. and Dist. Mains	161,632	-					161,632
24	333	Services	86,250	-					86,250
25	334	Meters	-	-					-
26	335	Hydrants	34,500	-					34,500
27	336	Backflow Prevention Devices	-	-					-
28	339	Other Plant and Misc. Equip.	-	-					-
29	340	Office Furniture and Fixtures	2,947	-					2,947
30	340.1	Computers and Software	-	-					-
31	341	Transportation Equipment	-	-					-
32	342	Stores Equipment	-	-					-
33	343	Tools and Work Equipment	-	-					-
34	344	Laboratory Equipment	-	-					-
35	345	Power Operated Equipment	-	-					-
36	346	Communications Equipment	-	-					-
37	347	Miscellaneous Equipment	-	-					-
38	348	Other Tangible Plant	-	-					-
39		Plant Held for Future Use	-	-					-
40		TOTALS	$ 2,496,640	$ -	$ -	$ -	$ -	$ -	$ 2,496,640
41									
42		Plant-in-Service per Books							$ 2,496,640
43									
44		Increase (decrease) in Plant-in-Service							$ -
45									
46		Adjustment to Plant-in-Service							$ -
47									
48		SUPPORTING SCHEDULES							
49		B-2, pages 3.1							
50									

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Rejoinder Schedule B-
Page 3.1
Witness: Bourassa

Reconciliation to Reconstructed Plant-in-Service

Acct. No.	Description	Recorded Orginal Cost	Removed Deep Well #4 Costs	Adjusted Original Cost	Plant Per Reconstruction	Difference
301	Organization Cost	-		-	-	-
302	Franchise Cost	-		-	-	-
303	Land and Land Rights	210,000		210,000	210,000	-
304	Structures and Improvements	81,748	(8,751)	72,997	72,997	-
305	Collecting and Impounding Res.	-		-	-	-
306	Lake River and Other Intakes	-		-	-	-
307	Wells and Springs	2,831,962	(1,478,423)	1,353,539	1,353,539	-
308	Infiltration Galleries and Tunnels	-		-	-	-
309	Supply Mains	-		-	-	-
310	Power Generation Equipment	89,125	(1,725)	87,400	87,400	-
311	Electric Pumping Equipment	158,711		158,711	158,711	-
320	Water Treatment Equipment	5,487		5,487	5,487	-
320.1	Water Treatment Plant	-		-	-	-
320.2	Chemical Solution Feeders	-		-	-	-
330	Dist. Reservoirs & Standpipe	321,452		321,452	321,452	-
330.1	Storage tanks	-		-	-	-
330.2	Pressure Tanks	-		-	-	-
331	Trans. and Dist. Mains	161,632		161,632	161,632	-
333	Services	86,250		86,250	86,250	-
334	Meters	-		-	-	-
335	Hydrants	34,500		34,500	34,500	-
336	Backflow Prevention Devices	-		-	-	-
339	Other Plant and Misc. Equip.	-		-	-	-
340	Office Furniture and Fixtures	4,672		4,672	4,672	-
340.1	Computers and Software	-		-	-	-
341	Transportation Equipment	-		-	-	-
342	Stores Equipment	-		-	-	-
343	Tools and Work Equipment	-		-	-	-
344	Laboratory Equipment	-		-	-	-
345	Power Operated Equipment	-		-	-	-
346	Communications Equipment	-		-	-	-
347	Miscellaneous Equipment	-		-	-	-
348	Other Tangible Plant	-		-	-	-
	Plant Held for Future Use	-		-	-	-
	TOTALS	$ 3,985,539	$ (1,488,899)	$ 2,496,640	$ 2,496,640	$ -

SUPPORTING SCHEDULE
B-2, pages 3.2 - 3.8

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.2
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Per Decision 70140: Plant at 12/31/2005	Per Decision 70140: Accum. Deprec. At 12/31/2005	2006: Plant Additions (Per Books)	2006: Plant Adjustments	2006: Adjusted Plant Additions	2006: Plant Retirements (Per Books)	2006: Adjusted Plant Retirements	2006: Salvage A/D Only	2006: Depreciation (Calculated)	2006: Plant Balance	2006: Accum. Deprec.
1	301	Organization Cost	0.00%	-	-			-		-		-	-	-
2	302	Franchise Cost	0.00%	-	-			-		-		-	-	-
3	303	Land and Land Rights	0.00%	210,000	-			-		-		-	210,000	-
4	304	Structures & Improvements	3.33%	72,997	3,648			-		-		2,431	72,997	6,077
5	305	Collecting & Impounding Reservoirs	2.50%	-	-			-		-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-			-		-		-	-	-
7	307	Wells & Springs	3.33%	2,071,821	103,487			-		-		68,992	2,071,821	172,479
8	308	Infiltration Galleries	6.67%	-	-			-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-			-		-		-	-	-
10	310	Power Generation Equipment	5.00%	87,400	6,555			-		-		4,370	87,400	10,925
11	311	Pumping Equipment	12.50%	158,711	29,758			-		-		19,839	158,711	49,597
12	320	Water Treatment Equipment	3.33%	5,487	274			-		-		183	5,487	457
13	320.1	Water Treatment Plants	3.33%					-		-		-	-	-
14	320.2	Solution Chemical Feeders	20.00%					-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	321,452	10,704			-		-		7,136	321,452	17,841
16	330.1	Storage Tanks	2.22%					-		-		-	-	-
17	330.2	Pressure Tanks	5.00%					-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	147,200	4,416			-		-		2,944	147,200	7,360
19	333	Services	3.33%	86,250	4,308			-		-		2,872	86,250	7,180
20	334	Meters	8.33%	-	-			-		-		-	-	-
21	335	Hydrants	2.00%	34,500	1,035			-		-		690	34,500	1,725
22	336	Backflow Prevention Devices	6.67%	-	-			-		-		-	-	-
23	339	Other Plant & Misc Equipment	6.67%	-	-			-		-		-	-	-
24	340	Office Furniture & Equipment	6.67%	-	-			-		-		-	-	-
25	340.1	Computers & Software	20.00%					-		-		-	-	-
26	341	Transportation Equipment	20.00%	-	-			-		-		-	-	-
27	342	Stores Equipment	4.00%	-	-			-		-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-			-		-		-	-	-
29	344	Laboratory Equipment	10.00%	-	-			-		-		-	-	-
30	345	Power Operated Equipment	5.00%	-	-			-		-		-	-	-
31	346	Communication Equipment	10.00%	-	-			-		-		-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-			-		-		-	-	-
33	348	Other Tangible Plant	10.00%	-	-			-		-		-	-	-
34		Plant Held for Future Use	-					-		-		-	-	-
35														
36		TOTALS		3,195,818	164,185	-	-	-	-	-	-	108,456	3,195,818	273,641

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.3
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2007 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-		-		-	-	-
2	302	Franchise Cost	0.00%			-		-		-	-	-
3	303	Land and Land Rights	0.00%			-		-		-	210,000	-
4	304	Structures & Improvements	3.33%			-		-		2,431	72,997	8,508
5	305	Collecting & Impounding Reservoirs	2.50%			-		-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%			-		-		-	-	-
7	307	Wells & Springs	3.33%			-		-		68,992	2,071,821	241,471
8	308	Infiltration Galleries	6.67%			-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%			-		-		-	-	-
10	310	Power Generation Equipment	5.00%			-		-		4,370	87,400	15,295
11	311	Pumping Equipment	12.50%			-		-		19,839	158,711	69,436
12	320	Water Treatment Equipment	3.33%			-		-		183	5,487	640
13	320.1	Water Treatment Plants	3.33%			-		-		-	-	-
14	320.2	Solution Chemical Feeders	20.00%			-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-		-		7,136	321,452	24,977
16	330.1	Storage Tanks	2.22%			-		-		-	-	-
17	330.2	Pressure Tanks	5.00%			-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%			-		-		2,944	147,200	10,304
19	333	Services	3.33%			-		-		2,872	86,250	10,052
20	334	Meters	8.33%			-		-		-	-	-
21	335	Hydrants	2.00%			-		-		690	34,500	2,415
22	336	Backflow Prevention Devices	6.67%			-		-		-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-		-		-	-	-
24	340	Office Furniture & Equipment	6.67%			-		-		-	-	-
25	340.1	Computers & Software	20.00%			-		-		-	-	-
26	341	Transportation Equipment	20.00%			-		-		-	-	-
27	342	Stores Equipment	4.00%			-		-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-		-		-	-	-
29	344	Laboratory Equipment	10.00%			-		-		-	-	-
30	345	Power Operated Equipment	5.00%			-		-		-	-	-
31	346	Communication Equipment	10.00%			-		-		-	-	-
32	347	Miscellaneous Equipment	10.00%			-		-		-	-	-
33	348	Other Tangible Plant	10.00%			-		-		-	-	-
34		Plant Held for Future Use				-		-		-	-	-
35												
36		TOTALS		-	-	-	-	-	-	109,456	3,185,818	383,097

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.4
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2008 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-		-		-	-	-
2	302	Franchise Cost	0.00%			-		-		-	-	-
3	303	Land and Land Rights	0.00%			-		-		-	210,000	-
4	304	Structures & Improvements	3.33%	6,251		6,251		-		2,536	79,248	11,043
5	305	Collecting & Impounding Reservoirs	2.50%			-		-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%			-		-		-	-	-
7	307	Wells & Springs	3.33%			-		-		68,992	2,071,821	310,462
8	308	Infiltration Galleries	6.67%			-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%			-		-		-	-	-
10	310	Power Generation Equipment	5.00%	1,725		1,725		-		4,413	89,125	19,708
11	311	Pumping Equipment	12.50%			-		-		19,839	158,711	89,275
12	320	Water Treatment Equipment	3.33%			-		-		183	5,487	822
13	320.1	Water Treatment Plants	3.33%			-		-		-	-	-
14	320.2	Solution Chemical Feeders	20.00%			-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-		-		7,136	321,452	32,113
16	330.1	Storage Tanks	2.22%			-		-		-	-	-
17	330.2	Pressure Tanks	5.00%			-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%			-		-		2,944	147,200	13,248
19	333	Services	3.33%			-		-		2,872	86,250	12,925
20	334	Meters	8.33%			-		-		-	-	-
21	335	Hydrants	2.00%			-		-		690	34,500	3,105
22	336	Backflow Prevention Devices	6.67%			-		-		-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-		-		-	-	-
24	340	Office Furniture & Equipment	6.67%	2,552		2,552		-		85	2,552	85
25	340.1	Computers & Software	20.00%			-		-		-	-	-
26	341	Transportation Equipment	20.00%			-		-		-	-	-
27	342	Stores Equipment	4.00%			-		-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-		-		-	-	-
29	344	Laboratory Equipment	10.00%			-		-		-	-	-
30	345	Power Operated Equipment	5.00%			-		-		-	-	-
31	346	Communication Equipment	10.00%			-		-		-	-	-
32	347	Miscellaneous Equipment	10.00%			-		-		-	-	-
33	348	Other Tangible Plant	10.00%			-		-		-	-	-
34		Plant Held for Future Use				-		-		-	-	-
35												
36		TOTALS		10,528	-	10,528	-	-	-	109,689	3,206,346	492,786

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
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Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009 Plant Additions (Per Books)	Plant Adjustments[1]	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-			-		-	-	-
2	302	Franchise Cost	0.00%			-			-		-	-	-
3	303	Land and Land Rights	0.00%			-			-		-	210,000	-
4	304	Structures & Improvements	3.33%			-			-		2,639	79,248	13,682
5	305	Collecting & Impounding Reservoirs	2.50%			-			-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%			-			-		-	-	-
7	307	Wells & Springs	3.33%	753,141		753,141			-		81,531	2,824,962	391,994
8	308	Infiltration Galleries	6.67%			-			-		-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-		-	-	-
10	310	Power Generation Equipment	5.00%			-			-		4,456	89,125	24,164
11	311	Pumping Equipment	12.50%			-			-		19,839	158,711	109,114
12	320	Water Treatment Equipment	3.33%			-			-		183	5,487	1,005
13	320.1	Water Treatment Plants	3.33%			-			-		-	-	-
14	320.2	Solution Chemical Feeders	20.00%			-			-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-			-		7,136	321,452	39,249
16	330.1	Storage Tanks	2.22%			-			-		-	-	-
17	330.2	Pressure Tanks	5.00%			-			-		-	-	-
18	331	Transmission & Distribution Mains	2.00%			-			-		2,944	147,200	16,192
19	333	Services	3.33%			-			-		2,872	86,250	15,797
20	334	Meters	8.33%			-			-		-	-	-
21	335	Hydrants	2.00%			-			-		690	34,600	3,795
22	336	Backflow Prevention Devices	6.67%			-			-		-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-			-		-	-	-
24	340	Office Furniture & Equipment	6.67%			-			-		170	2,562	255
25	340.1	Computers & Software	20.00%			-			-		-	-	-
26	341	Transportation Equipment	20.00%			-			-		-	-	-
27	342	Stores Equipment	4.00%			-			-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-			-		-	-	-
29	344	Laboratory Equipment	10.00%			-			-		-	-	-
30	345	Power Operated Equipment	5.00%			-			-		-	-	-
31	346	Communication Equipment	10.00%			-			-		-	-	-
32	347	Miscellaneous Equipment	10.00%			-			-		-	-	-
33	348	Other Tangible Plant	10.00%			-			-		-	-	-
34		Plant Held for Future Use				-			-		-	-	-
35													
36		TOTALS		753,141	-	753,141	-	-	-	-	122,461	3,959,487	615,247

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.6
Witness: Bourassa

				2010									
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-			-		-	-	-
2	302	Franchise Cost	0.00%			-			-		-	-	-
3	303	Land and Land Rights	0.00%			-			-		-	210,000	-
4	304	Structures & Improvements	3.33%			-			-		2,639	79,248	16,321
5	305	Collecting & Impounding Reservoirs	2.50%			-			-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%			-			-		-	-	-
7	307	Wells & Springs	3.33%			-			-		94,071	2,824,962	466,065
8	308	Infiltration Galleries	6.67%			-			-		-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-		-	-	-
10	310	Power Generation Equipment	5.00%			-			-		4,456	89,125	28,621
11	311	Pumping Equipment	12.50%			-			-		19,839	158,711	128,953
12	320	Water Treatment Equipment	3.33%			-			-		183	5,487	1,188
13	320.1	Water Treatment Plants	3.33%			-			-		-	-	-
14	320.2	Solution Chemical Feeders	20.00%			-			-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-			-		7,136	321,452	46,386
16	330.1	Storage Tanks	2.22%			-			-		-	-	-
17	330.2	Pressure Tanks	5.00%			-			-		-	-	-
18	331	Transmission & Distribution Mains	2.00%			-			-		2,944	147,200	19,136
19	333	Services	3.33%			-			-		2,872	86,250	18,669
20	334	Meters	8.33%			-			-		-	-	-
21	335	Hydrants	2.00%			-			-		690	34,500	4,485
22	336	Backflow Prevention Devices	6.67%			-			-		-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-			-		-	-	-
24	340	Office Furniture & Equipment	6.67%			-			-		170	2,562	426
25	340.1	Computers & Software	20.00%			-			-		-	-	-
26	341	Transportation Equipment	20.00%			-			-		-	-	-
27	342	Stores Equipment	4.00%			-			-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-			-		-	-	-
29	344	Laboratory Equipment	10.00%			-			-		-	-	-
30	345	Power Operated Equipment	5.00%			-			-		-	-	-
31	346	Communication Equipment	10.00%			-			-		-	-	-
32	347	Miscellaneous Equipment	10.00%			-			-		-	-	-
33	348	Other Tangible Plant	10.00%			-			-		-	-	-
34		Plant Held for Future Use				-			-		-	-	-
35													
36		TOTALS		-	-	-	-	-	-	-	135,001	3,959,487	750,248

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
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Witness: Bouresse

				2011									
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-			-		-	-	-
2	302	Franchise Cost	0.00%			-			-		-	-	-
3	303	Land and Land Rights	0.00%			-			-		-	210,000	-
4	304	Structures & Improvements	3.33%	2,500		2,500			-		2,681	81,748	19,001
5	305	Collecting & Impounding Reservoirs	2.50%			-			-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%			-			-		-	-	-
7	307	Wells & Springs	3.33%	7,000		7,000			-		94,188	2,831,962	580,253
8	308	Infiltration Galleries	6.67%			-			-		-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-		-	-	-
10	310	Power Generation Equipment	5.00%			-			-		4,456	89,125	33,077
11	311	Pumping Equipment	12.50%			-			-		19,839	158,711	148,792
12	320	Water Treatment Equipment	3.33%			-			-		183	5,487	1,370
13	320.1	Water Treatment Plants	3.33%			-			-		-	-	-
14	320.2	Solution Chemical Feeders	20.00%			-			-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-			-		7,136	321,452	53,522
16	330.1	Storage Tanks	2.22%			-			-		-	-	-
17	330.2	Pressure Tanks	5.00%			-			-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	14,432		14,432			-		3,088	161,632	22,224
19	333	Services	3.33%			-			-		2,872	86,250	21,541
20	334	Meters	8.33%			-			-		-	-	-
21	335	Hydrants	2.00%			-			-		690	34,500	5,175
22	336	Backflow Prevention Devices	6.67%			-			-		-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-			-		-	-	-
24	340	Office Furniture & Equipment	6.67%			-			-		170	2,552	596
25	340.1	Computers & Software	20.00%			-			-		-	-	-
26	341	Transportation Equipment	20.00%			-			-		-	-	-
27	342	Stores Equipment	4.00%			-			-		-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-			-		-	-	-
29	344	Laboratory Equipment	10.00%			-			-		-	-	-
30	345	Power Operated Equipment	5.00%			-			-		-	-	-
31	346	Communication Equipment	10.00%			-			-		-	-	-
32	347	Miscellaneous Equipment	10.00%			-			-		-	-	-
33	348	Other Tangible Plant	10.00%			-			-		-	-	-
34		Plant Held for Future Use				-			-		-	-	-
35													
36		TOTALS		23,932	-	23,932	-	-	-	-	135,303	3,983,419	885,551

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.8
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Plant Adjustments	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-			-			-	-	-
2	302	Franchise Cost	0.00%			-			-			-	-	-
3	303	Land and Land Rights	0.00%			-			-			-	210,000	-
4	304	Structures & Improvements	3.33%			-			-	(6,751)	(1,062)	2,722	72,997	20,662
5	305	Collecting & Impounding Reservoirs	2.50%			-			-			-	-	-
6	306	Lake, River, Canal Intakes	2.50%			-			-			-	-	-
7	307	Wells & Springs	3.33%			-			-	(1,478,423)	(293,372)	94,304	1,353,539	361,165
8	308	Infiltration Galleries	6.67%			-			-			-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-			-	-	-
10	310	Power Generation Equipment	5.00%			-			-	(1,725)	(388)	4,456	87,400	37,145
11	311	Pumping Equipment	12.50%			-			-			9,919	158,711	158,711
12	320	Water Treatment Equipment	3.33%			-			-			183	5,487	1,553
13	320.1	Water Treatment Plants	3.33%			-			-			-	-	-
14	320.2	Solution Chemical Feeders	20.00%			-			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%			-			-			7,136	321,452	60,658
16	330.1	Storage Tanks	2.22%			-			-			-	-	-
17	330.2	Pressure Tanks	5.00%			-			-			-	-	-
18	331	Transmission & Distribution Mains	2.00%			-			-			3,233	161,632	25,457
19	333	Services	3.33%			-			-			2,872	86,250	24,413
20	334	Meters	8.33%			-			-			-	-	-
21	335	Hydrants	2.00%			-			-			690	34,500	5,865
22	336	Backflow Prevention Devices	6.67%			-			-			-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-			-			-	-	-
24	340	Office Furniture & Equipment	6.67%	2,119		2,119			-			241	4,672	837
25	340.1	Computers & Software	20.00%			-			-			-	-	-
26	341	Transportation Equipment	20.00%			-			-			-	-	-
27	342	Stores Equipment	4.00%			-			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-			-			-	-	-
29	344	Laboratory Equipment	10.00%			-			-			-	-	-
30	345	Power Operated Equipment	5.00%			-			-			-	-	-
31	346	Communication Equipment	10.00%			-			-			-	-	-
32	347	Miscellaneous Equipment	10.00%			-			-			-	-	-
33	348	Other Tangible Plant	10.00%			-			-			-	-	-
34		Plant Held for Future Use				-			-			-	-	-
35														
36		TOTALS		2,119	-	2,119	-	-	-	(1,486,899)	(294,821)	125,757	2,496,640	716,486

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rejoinder Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A Adjustments To Reconcile Plant To Reconstruction	B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Rejoinder Adjusted Accum. Depr.
1						Adjustments			
2									
3									
4									
5									
6	301	Organization Cost	-	-					-
7	302	Franchise Cost	-	-					-
8	303	Land and Land Rights	-	-					-
9	304	Structures and Improvements	20,662	-					20,662
10	305	Collecting and Impounding Res.	-	-					-
11	306	Lake River and Other Intakes	-	-					-
12	307	Wells and Springs	381,185	-					381,185
13	308	Infiltration Galleries and Tunnels	-	-					-
14	309	Supply Mains	-	-					-
15	310	Power Generation Equipment	37,145	-					37,145
16	311	Electric Pumping Equipment	168,630	(9,919)					158,711
17	320	Water Treatment Equipment	1,553	-					1,553
18	320.1	Water Treatment Plant	-	-					-
19	320.2	Chemical Solution Feeders	-	-					-
20	330	Dist. Reservoirs & Standpipe	60,658	-					60,658
21	330.1	Storage tanks	-	-					-
22	330.2	Pressure Tanks	-	-					-
23	331	Trans. and Dist. Mains	25,457	-					25,457
24	333	Services	24,413	-					24,413
25	334	Meters	-	-					-
26	335	Hydrants	5,865	-					5,865
27	336	Backflow Prevention Devices	-	-					-
28	339	Other Plant and Misc. Equip.	-	-					-
29	340	Office Furniture and Fixtures	837	-					837
30	340.1	Computers and Software	-	-					-
31	341	Transportation Equipment	-	-					-
32	342	Stores Equipment	-	-					-
33	343	Tools and Work Equipment	-	-					-
34	344	Laboratory Equipment	-	-					-
35	345	Power Operated Equipment	-	-					-
36	346	Communications Equipment	-	-					-
37	347	Miscellaneous Equipment	-	-					-
38	348	Other Tangible Plant	-	-					-
39			-	-					-
40		TOTALS	$ 726,406	$ (9,919)	$ -	$ -	$ -	$ -	$ 716,486
41									
42		Accumulated Depreciation per Books							
43									$ 726,406
44		Increase (decrease) in Accumulated Depreciation							
45									$ (9,919)
46		Adjustment to Accumulated Depreciation							
47									$ (9,919)

48 SUPPORTING SCHEDULES
49 B-2, pages 4.1
50 B-2, pages 4.2

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - A

Exhibit
Rejoinder Schedule B-
Page 4.1
Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Accumulated Depreciation	Adjusted Accumulated Depreciation	Accumulated Depreciation Per Plant Reconstruction	Difference
1	Reconcilation to Reconstructed Accumulated Depreciation					
2						
3						
4						
5						
6	301	Organization Cost	-	-	-	-
7	302	Franchise Cost	-	-	-	-
8	303	Land and Land Rights	-	-	-	-
9	304	Structures and Improvements	20,662	20,662	20,662	-
10	305	Collecting and Impounding Res.	-	-	-	-
11	306	Lake River and Other Intakes	-	-	-	-
12	307	Wells and Springs	381,185	381,185	381,185	-
13	308	Infiltration Galleries and Tunnels	-	-	-	-
14	309	Supply Mains	-	-	-	-
15	310	Power Generation Equipment	37,145	37,145	37,145	-
16	311	Electric Pumping Equipment	168,630	168,630	158,711	(9,919)
17	320	Water Treatment Equipment	1,553	1,553	1,553	-
18	320.1	Water Treatment Plant	-	-	-	-
19	320.2	Chemical Solution Feeders	-	-	-	-
20	330	Dist. Reservoirs & Standpipe	60,658	60,658	60,658	-
21	330.1	Storage tanks	-	-	-	-
22	330.2	Pressure Tanks	-	-	-	-
23	331	Trans. and Dist. Mains	25,457	25,457	25,457	-
24	333	Services	24,413	24,413	24,413	-
25	334	Meters	-	-	-	-
26	335	Hydrants	5,865	5,865	5,865	-
27	336	Backflow Prevention Devices	-	-	-	-
28	339	Other Plant and Misc. Equip.	-	-	-	-
29	340	Office Furniture and Fixtures	837	837	837	-
30	340.1	Computers and Software	-	-	-	-
31	341	Transportation Equipment	-	-	-	-
32	342	Stores Equipment	-	-	-	-
33	343	Tools and Work Equipment	-	-	-	-
34	344	Laboratory Equipment	-	-	-	-
35	345	Power Operated Equipment	-	-	-	-
36	346	Communications Equipment	-	-	-	-
37	347	Miscellaneous Equipment	-	-	-	-
38	348	Other Tangible Plant	-	-	-	-
39		Plant Held for Future Use	-			-
40		TOTALS	$ 726,406	$ 726,406	$ 716,486	$ (9,919)
41						
42						

43 SUPPORTING SCHEDULE
44 B-2, pages 4.1
45 B-2, pages 3.3 - 3.9

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rejoinder Schedule B-2
Page 5.0
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

	Gross CIAC	Accumulated Amortization
Computed balance at end of test year	$ 294,745	$ 95,670
Adjusted balance at end of test year	$ 294,745	$ 96,938
Increase (decrease)	$ -	$ (1,267)
Adjustment to CIAC/AA CIAC	$ -	$ 1,267
Label	3a	3b

SUPPORTING SCHEDULES
E-1
B-2, page 5.1

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Contributions-in-aid of Construction (CIAC)

Exhibit
Rejoinder Schedule B-2
Page 5.1
Witness: Bourassa

Line No.			2006		2007		2008		2009	
1		Balance		Balance		Balance		Balance		Balance
2		12/31/2005	Additions	12/31/2006	Additions	12/31/2007	Additions	12/31/2008	Additions	12/31/2009
5	Gross CIAC	294,745		294,745		294,745		294,745		294,745
7	Amortization Decision No. 70140	16,207								
8	Amortization Rate			3.67%		3.67%		3.66%		3.27%
9	Amortization			10,817		10,817		10,788		9,638
10	Accumulated Amortization			27,024		37,841		48,629		58,267
12	Net CIAC	278,538	-	267,721	-	256,904	-	246,116	-	236,478

Line No.		2010		2011		2012	
17			Balance		Balance		Balance
18		Additions	12/31/2010	Additions	12/31/2011	Additions	12/31/2012
21	Gross CIAC		294,745	-	294,745	-	294,745
24	Amortization Rate		3.60%		3.59%		5.50%
25	Amortization		10,611		10,581		16,211
26	Accumulated Amortization		68,878		79,459		95,670
28	Net CIAC	-	225,867	-	215,286	-	199,075

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Customer Deposits

Exhibit
Rejoinder Schedule B-2
Page 6.0
Witness: Bourassa

Line No.			
4	Computed balance at end of test year	$	5,885
6	Book balance at end of test year	$	5,885
8	Increase (decrease)	$	-
19	SUPPORTING SCHEDULES		
20	Testimony		
21	Work papers		

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Computation of Working Capital

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	10,138
3	Pumping Power (1/24 of Pumping Power)		2,783
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	$	12,921
10			
11			
12	**Working Capital Requested**	**$**	**-**
13			
14			
15			
16			
17		Adjusted Test Year	
18	Total Operating Expense	$	211,193
19	Less:		
20	Income Tax	$	(1,255)
21	Property Tax		7,464
22	Depreciation		57,091
23	Purchased Water		-
24	Pumping Power		66,787
25	Allowable Expenses	$	81,106
26	1/8 of allowable expenses	$	10,138
27			
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
30	E-1	B-1	
31			
32			
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Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rejoinder Test Year Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 202,743	$ -	$ 202,743	$ 225,674	$ 428,417
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	5,261	(1,820)	3,441		3,441
5		$ 208,004	$ (1,820)	$ 206,184	$ 225,674	$ 431,858
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Water	-	-	-		-
9	Purchased Power	66,787	-	66,787		66,787
10	Fuel For Power Production	-	-	-		-
11	Chemicals	1,460	-	1,460		1,460
12	Materials and Supplies	12,257	-	12,257		12,257
13	Office Supplies and Expense	2,399	-	2,399		2,399
14	Contractual Services - Accounting	20,253	-	20,253		20,253
15	Contractual Services - Professional	9,651	-	9,651		9,651
16	Contractual Services - Maintenance	-	-	-		-
17	Contractual Services - Other	-	-	-		-
18	Water Testing	8,107	(7,733)	374		374
19	Rents	-	-	-		-
20	Transportation Expenses	-	-	-		-
21	Insurance - General Liability	2,186	-	2,186		2,186
22	Insurance - Health and Life	-	-	-		-
23	Reg. Comm. Exp. - Other	-	-	-		-
24	Reg. Comm. Exp. - Rate Case	10,000	6,667	16,667		16,667
25	Miscellaneous Expense	19,976	(4,116)	15,860		15,860
26	Bad Debt Expense	-	-	-		-
27	Depreciation and Amortization Expense	57,728	(637)	57,091		57,091
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	7,530	(66)	7,464	2,723	10,187
30	Income Tax	(2,064)	809	(1,255)	44,670	43,415
31	**Total Operating Expenses**	$ 216,269	$ (5,076)	$ 211,193	$ 47,394	$ 258,587
32	**Operating Income**	$ (8,265)	$ 3,256	$ (5,009)	$ 178,280	$ 173,271
33	**Other Income (Expense)**					
34	Interest Income	-	-	-		-
35	Other income	-	-	-		-
36	Interest Expense	-	-	-		-
37	Other Expense	-	-	-		-
38		-	-	-		-
39	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
40	**Net Profit (Loss)**	$ (8,265)	$ 3,256	$ (5,009)	$ 178,280	$ 173,271
41						
42	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
43	C-1, page 2				A-1	
44	E-2					
45						

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 2.1
Witness: Bourassa

Line No.		LABEL>>>>> Test Year Adjusted Results	1 Depreciation	2 Property Taxes	3 Rate Case Expense	4 Revenue Adjustment	5 Water Testing	6 Auto Expense	7 Telephone Expense
1	**Revenues**								
2	Metered Water Revenues	$ 202,743							
3	Unmetered Water Revenues	-							
4	Other Water Revenues	5,261				(1,820)			
5		$ 208,004	$ -	$ -	$ -	$ (1,820)	$ -	$ -	$ -
6	**Operating Expenses**								
7	Salaries and Wages	$ -							
8	Purchased Water	-							
9	Purchased Power	66,787							
10	Fuel For Power Production	-							
11	Chemicals	1,460							
12	Materials and Supplies	12,257							
13	Office Supplies and Expense	2,399							
14	Contractual Services - Accounting	20,253							
15	Contractual Services - Professional	9,651							
16	Contractual Services - Maintenance	-							
17	Contractual Services - Other	-							
18	Water Testing	8,107					(7,733)		
19	Rents	-							
20	Transportation Expenses	-							
21	Insurance - General Liability	2,186							
22	Insurance - Health and Life	-							
23	Reg. Comm. Exp. - Other	-							
24	Reg. Comm. Exp. - Rate Case	10,000			6,687				
25	Miscellaneous Expense	19,976						(1,750)	(2,366)
26	Bad Debt Expense	-							
27	Deprec. and Amort. Exp.	57,728	(637)						
28	Taxes Other Than Income	-							
29	Property Taxes	7,530		(66)					
30	Income Tax	(2,064)							
31	**Total Operating Expenses**	$ 216,269	$ (637)	$ (66)	$ 6,667	$ -	$ (7,733)	$ (1,750)	$ (2,366)
32	**Operating Income**	$ (8,265)	$ 637	$ 66	$ (6,667)	$ (1,820)	$ 7,733	$ 1,750	$ 2,366
33	**Other Income (Expense)**								
34	Interest Income	-							
35	Other income	-							
36	Interest Expense	-							
37	Other Expense	-							
38		-							
39	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
40	**Net Profit (Loss)**	$ (8,265)	$ 637	$ 66	$ (6,667)	$ (1,820)	$ 7,733	$ 1,750	$ 2,366
41									
42	SUPPORTING SCHEDULES:								
43	C-2								
44	E-2								

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 2.2
Witness: Bourassa

Line No.		8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Income Taxes	Rejoinder Test Year Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	**Revenues**							
2	Metered Water Revenues					$ 202,743	$ 225,674	$ 428,417
3	Unmetered Water Revenues					-		-
4	Other Water Revenues					3,441		3,441
5		$ -	$ -	$ -	$ -	$ 206,184	$ 225,674	$ 431,858
6	**Operating Expenses**							
7	Salaries and Wages					$ -		$ -
8	Purchased Water					-		-
9	Purchased Power					66,787		66,787
10	Fuel For Power Production					-		-
11	Chemicals					1,460		1,460
12	Materials and Supplies					12,257		12,257
13	Office Supplies and Expense					2,399		2,399
14	Contractual Services - Accounting					20,253		20,253
15	Contractual Services - Professional					9,651		9,651
16	Contractual Services - Maintenance					-		-
17	Contractual Services - Other					-		-
18	Water Testing					374		374
19	Rents					-		-
20	Transportation Expenses					-		-
21	Insurance - General Liability					2,186		2,186
22	Insurance - Health and Life					-		-
23	Reg. Comm. Exp. - Other					-		-
24	Reg. Comm. Exp. - Rate Case					16,667		16,667
25	Miscellaneous Expense					15,860		15,860
26	Bad Debt Expense					-		-
27	Deprec. and Amort. Exp.					57,091		57,091
28	Taxes Other Than Income					-		-
29	Property Taxes					7,464	2,723	10,187
30	Income Tax				809	(1,255)	44,670	43,415
31	**Total Operating Expenses**	$ -	$ -	$ -	$ 809	$ 211,193	$ 47,394	$ 258,587
32	**Operating Income**	$ -	$ -	$ -	$ (809)	$ (5,009)	$ 178,280	$ 173,271
33	**Other Income (Expense)**							
34	Interest Income					-		-
35	Other income					-		-
36	Interest Expense					-		-
37	Other Expense					-		-
38						-		-
39	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
40	**Net Profit (Loss)**	$ -	$ -	$ -	$ (809)	$ (5,009)	$ 178,280	$ 173,271
41								
42	SUPPORTING SCHEDULES:					RECAP SCHEDULES:		
43	C-2					C-1, page 1		
44	E-2							

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

	1 Depreciation Expense	2 Property Taxes	3 Rate Case Expense	4 Revenue Adjustment	5 Water Testing	6 Auto Expense	Subtotal
Revenues				(1,820)			(1,820)
Expenses	(637)	(66)	6,667		(7,733)	(1,750)	(3,519)
Operating Income	637	66	(6,667)	(1,820)	7,733	1,750	1,699
Interest Expense						-	-
Other Income / Expense							-
Net Income	637	66	(6,667)	(1,820)	7,733	1,750	1,699

Adjustments to Revenues and Expenses

	7 Telephone Expense	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Income Taxes		Subtotal
Revenues							(1,820)
Expenses	(2,366)	-	-	-	809	-	(5,076)
Operating Income	2,366	-	-	-	(809)	-	3,256
Interest Expense							-
Other Income / Expense							-
Net Income	2,366	-	-	-	(809)	-	3,256

				Exhibit
	Utility Source. LLC - Water Division			Rejoinder Schedule C-
	Test Year Ended December 31, 2012			Page 2
	Adjustments to Revenues and Expenses			Witness: Bourassa
	Adjustment Number 1			

Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Non-depreciable/ Fully Depreciated	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3							
4							
5	301	Organization Cost	-	-	-	0.00%	-
6	302	Franchise Cost	-	-	-	0.00%	-
7	303	Land and Land Rights	210,000	(210,000)	-	0.00%	-
8	304	Structures and Improvements	72,997		72,997	3.33%	2,431
9	305	Collecting and Impounding Res.	-		-	2.50%	-
10	306	Lake River and Other Intakes	-		-	2.50%	-
11	307	Wells and Springs	1,353,539		1,353,539	3.33%	45,073
12	308	Infiltration Galleries and Tunnels	-		-	6.67%	-
13	309	Supply Mains	-		-	2.00%	-
14	310	Power Generation Equipment	89,125		89,125	5.00%	4,456
15	311	Electric Pumping Equipment	158,711	(158,711)	-	12.50%	-
16	320	Water Treatment Equipment	5,487		5,487	3.33%	183
17	320.1	Water Treatment Plant	-		-	3.33%	-
18	320.2	Chemical Solution Feeders	-		-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	321,452		321,452	2.22%	7,136
20	330.1	Storage tanks	-		-	2.22%	-
21	330.2	Pressure Tanks	-		-	5.00%	-
22	331	Trans. and Dist. Mains	161,632		161,632	2.00%	3,233
23	333	Services	86,250		86,250	3.33%	2,872
24	334	Meters	-		-	8.33%	-
25	335	Hydrants	34,500		34,500	2.00%	690
26	336	Backflow Prevention Devices	-	-	-	6.67%	-
27	339	Other Plant and Misc. Equip.	-		-	6.67%	-
28	340	Office Furniture and Fixtures	2,947		2,947	6.67%	197
29	340.1	Computers and Software	-		-	20.00%	-
30	341	Transportation Equipment	-		-	20.00%	-
31	342	Stores Equipment	-		-	4.00%	-
32	343	Tools and Work Equipment	-		-	5.00%	-
33	344	Laboratory Equipment	-		-	10.00%	-
34	345	Power Operated Equipment	-		-	5.00%	-
35	346	Communications Equipment	-		-	10.00%	-
36	347	Miscellaneous Equipment	-		-	10.00%	-
37	348	Other Tangible Plant	-		-	10.00%	-
38		TOTALS	$ 2,496,640	$ (368,711)	$ 2,127,929		$ 66,270
39							
40					Gross CIAC	Amort. Rate	
41	Less: Amortization of Contributions				$ 294,745	3.1143%	$ (9,179)
42	Total Depreciation Expense						$ 57,091
43							
44	Adjusted Test Year Depreciation Expense						57,728
45							
46	Increase (decrease) in Depreciation Expense						(637)
47							
48	Adjustment to Revenues and/or Expenses						$ (637)
49							
50	SUPPORTING SCHEDULE						
51	B-2, page 3				*Fully Depreciated		

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rejoinder Schedul
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION		Test Year as adjusted		Company Recommended
1	Company Adjusted Test Year Revenues	$	206,184	$	206,184
2	Weight Factor		2		2
3	Subtotal (Line 1 * Line 2)		412,368		412,368
4	Company Recommended Revenue		206,184		431,858
5	Subtotal (Line 4 + Line 5)		618,552		844,226
6	Number of Years		3		3
7	Three Year Average (Line 5 / Line 6)		206,184		281,409
8	Department of Revenue Mutilplier		2		2
9	Revenue Base Value (Line 7 * Line 8)		412,368		562,817
10	Plus: 10% of CWIP (intentionally excluded)		-		-
11	Less: Net Book Value of Licensed Vehicles		-		-
12	Full Cash Value (Line 9 + Line 10 - Line 11)		412,368		562,817
13	Assessment Ratio		20.0%		20.0%
14	Assessment Value (Line 12 * Line 13)		82,474		112,563
15	Composite Property Tax Rate - Obtained from ADOR		9.0503%		9.0503%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$	7,464	$	10,187
17	Tax on Parcels		-		-
18	Total Property Taxes (Line 16 + Line 17)	$	7,464		
19	Test Year Property Taxes	$	7,530		
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	$	(66)		
21					
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)			$	10,187
23	Company Test Year Adjusted Property Tax Expense (Line 18)			$	7,464
24	Increase in Property Tax Due to Increase in Revenue Requirement			$	2,723
25					
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)			$	2,723
27	Increase in Revenue Requirement			$	225,674
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)				1.20671%
29					
30					
31					
32					
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Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Rate Case Expense

Line No.			
1			
2			
3	Estimated Rate Case Expense	$	50,000
4			
5	Estimated Amortization Period in Years		3
6			
7	Annual Rate Case Expense	$	16,667
8			
9	Adjusted Test Year Rate Case Expense	$	10,000
10			
11	Increase(decrease) Rate Case Expense	$	6,667
12			
13	Adjustment to Revenue and/or Expense	$	6,667
14			
15			
16	Reference		
17	Testimony		
18			
19			
20			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rejoinder Schedule C-2
Page 5
Witness: Bourassa

Revenue Adjustment

Line No.			
1			
2	Revenue Adjustment	$	(1,820)
3			
4			
5			
6	Total Revenue from Annualization	$	(1,820)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(1,820)
10			
11	Reference		
12	Staff Adjustment # 1		
13			
14			
15			
16			
17			
18			
19			
20			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rejoinder Schedule C-2
Page 6
Witness: Bourassa

Water Testing

Line No.			
1			
2	RUCO Recommended Water Testing Expense	$	374
3			
4	Adjuste Test Year Water Testing Expense	$	8,107
5			
6	Adjustment to purchased power expense (rounded)	$	(7,733)
7			
8			
9	Adjustment to Revenue and/or Expense		(7,733)
10			
11	Reference		
12	RUCO Adjustment #2		
13			
14			
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19			
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Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rejoinder Schedule C-2
Page 7
Witness: Bourassa

Auto Expense

Line No.			
1			
2	Test Year Auto Expense	$	1,500
3			
4	Staff Recommended Auto Expense		3,250
5			
6	Adjustment to Revenues	$	(1,750)
7			
8			
9	Adjustment to Revenue and/or Expense		(1,750)
10			
11	Reference		
12	Staff Adjustment #4		
13			
14			
15			
16			
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18			
19			
20			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rejoinder Schedule C-2
Page 8
Witness: Bourassa

Telephone Expense

Line No.			
1			
2	Staff Recommended Telephone Expense	$	2,366
3			
4	Adjusted Test Year Telephone Expense		4,732
5			
6	Adjustment to Revenues	$	(2,366)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(2,366)
10			
11	Reference		
12	Staff Adjustment #5		
13			
14			
15			
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17			
18			
19			
20			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Rejoinder Schedule C-2
Page 9
Witness: Bourassa

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Line
No.

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Rejoinder Schedule C-2
Page 10
Witness: Bourassa

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Line No.
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Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 11

Exhibit
Rejoinder Schedule C-2
Page 12
Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Compauted Income Tax	$ (1,255)	$ 43,415
5	Test Year Income tax Expense	(2,064)	(1,255)
6	Adjustment to Income Tax Expense	$ 809	$ 44,670
7			
8			
9			
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11			
12			
13	SUPPORTING SCHEDULE		
14	C-3, page 2		
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Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	20.036%
3	Property Taxes	0.965%
6	Total Tax Percentage	21.001%
8	Operating Income % = 100% - Tax Percentage	78.999%
13	$\frac{1}{\text{Operating Income \%}}$ = Gross Revenue Conversion Factor	
14		1.2658
25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1

DOCKET NO. WS-02676A-12-0196

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012

Exhibit
Rejoinder Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollecible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.0009%					
5	Subtotal (L3 - L4)	78.9991%					
6	Revenue Conversion Factor (L1 / L5)	1.265838					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	20.0360%					
9	One Minus Combined Income Tax Rate (L7 - L8)	79.9640%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	3.1527%					
14	Federal Taxable Income (L12 - L13)	96.8473%					
15	Applicable Federal Income Tax Rate (L55 Col F)	17.4329%					
16	Effective Federal Income Tax Rate (L14 x L15)	16.8833%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		20.0360%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	20.0360%					
20	One Minus Combined Income Tax Rate (L18-L19)	79.9640%					
21	Property Tax Factor	1.2067%					
22	Effective Property Tax Factor (L20*L21)		0.9649%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.0009%			
24	Required Operating Income	$ 173,271					
25	AdjustedTest Year Operating Income (Loss)	$ (5,009)					
26	Required Increase in Operating Income (L24 - L25)		$ 178,280				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	$ 43,415					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	$ (1,255)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 44,670				
30	Recommended Revenue Requirement	$ 431,858					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -					
33	Adjusted Test Year Uncollectible Expense	$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ -				
35	Property Tax with Recommended Revenue	$ 10,187					
36	Property Tax on Test Year Revenue	$ 7,464					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 2,723				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 225,674				

Line No.	*Calculation of Income Tax:*	(A) Test Year Total	(B)	(C) Water	(D) Company Recommended Total	(E)	(F) Water
39	Revenue	$ 206,184		$ 206,184	$ 431,858		$ 431,858
40	Operating Expenses Excluding Income Taxes	212,448		212,448	215,171		215,171
41	Synchronized Interest (L47)	-		-	-		-
42	Arizona Taxable Income (L39 - L40 - L41)	$ (6,264)		$ (6,264)	$ 216,687		$ 216,687
43	Arizona State Effective Income Tax Rate (see work papers)	3.1527%		3.1527%	3.1527%		3.1527%
44	Arizona Income Tax (L42 x L43)	$ (197)		$ (197)	$ 6,831		$ 6,831
45	Federal Taxable Income (L42- L44)	$ (6,066)		$ (6,066)	$ 209,855		$ 209,855
46	Federal Tax Rate	17.4329%		17.4329%	17.4329%		17.4329%
47	Federal Tax	$ (1,058)		$ (1,058)	$ 36,584		$ 36,584
48							
49							
50							
51							
52							
53	Total Federal Income Tax	$ (1,058)		$ (1,058)	$ 36,584		$ 36,584
54	Combined Federal and State Income Tax (L35 + L42)	$ (1,255)		$ (1,255)	$ 43,415		$ 43,415
55	COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]				17.4329%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]					0.0000%	
57	WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45]						17.4329%

Line No.	*Calculation of Interest Synchronization:*	Wastewater	Water
58	Rate Base	$ 1,575,194	$ 1,575,194
59	Weighted Average Cost of Debt	0.0000%	0.0000%
60	Synchronized Interest (L59 X L60)	$ -	$ -

Utility Source, LLC - Water Division
Revenue Summary
Test Year Ended December 31, 2012

Exhibit
Rejoinder Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Classification		Total Revenues at Present Rates		Total Revenues at Proposed Rates		Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	3/4 Inch	Residential	$	159,301	$	326,338	$	167,038	104.86%	77.26%	75.57%
2	3/4 Inch	Commercial		322		810		489	152.01%	0.16%	0.19%
3	2 Inch	Commercial		38,120		89,670		51,550	135.23%	18.49%	20.76%
4	2 Inch	Irrigation		1,776		3,898		2,122	119.50%	0.86%	0.90%
5											
6	Bulk/Construction			3,482		7,323		3,841	110.29%	1.69%	1.70%
7											
8											
9	**Subtotals of Revenues**		$	203,001	$	428,040	$	225,039	110.86%	98.46%	99.12%
10	**Revenue Annualizations:**										
11	3/4 Inch	Residential	$	328	$	632	$	304	92.85%	0.16%	0.15%
12											
13											
14											
15	Bulk/Construction			-		-		-	0.00%	0.00%	0.00%
16	**Subtotal Revenue Annualization**			328		632		304	92.85%	0.16%	0.31%
17											
18	**Total Revenues w/ Annualization**		$	203,328	$	428,672	$	225,343	110.83%	98.61%	99.26%
19	**Misc Revenues, as adjusted**			3,441		3,441		-	0.00%	1.67%	0.80%
20	**Reconciling Amount**			(585)		(255)		330	-56.41%	-0.28%	-0.06%
21	**Total Revenues**		$	206,184	$	431,858	$	225,673	109.45%	100.00%	100.00%
22											
23											

Utility Source, LLC - Water Division
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Rejoinder Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		(a) Average Number of Customers at 12/31/2012	Average Consumption	Average Bill		Proposed Increase		Percent of Customers
					Present Rates	Proposed Rates	Dollar Amount	Percent Amount	
1	3/4 Inch	Residential	320	4,123	$ 38.58	$ 75.33	$ 36.76	95.27%	98.16%
2	3/4 Inch	Commercial	1	1,667	26.50	66.78	40.28	151.98%	0.31%
3	2 Inch	Commercial	3	115,286	1,004.10	2,262.58	1,258.47	125.33%	0.92%
4	2 Inch	Irrigation	1	-	$ 148.00	$ 324.86	$ 176.86	119.50%	0.31%
5									
6	Construction/Bulk		1	26,251	290.19	610.24	320.05	110.29%	0.31%
7									
8									
9									
10									
11									
12	Totals		326						100.00%
13									
14	Actual Year End Number								
15	of Customers:		327						
16									
17									
18									
19									

Utility Source, LLC - Water Division
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Rejoinder Schedule H-2
Page 2
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		(a) Average Number of Customers at 12/31/2012	Median Consumption	Median Bill: Present Rates	Median Bill: Proposed Rates	Proposed Increase: Dollar Amount	Proposed Increase: Percent Amount	Percent of Customers
1	3/4 Inch	Residential	320	3,500	$ 35.30	$ 69.31	$ 34.01	96.34%	98.16%
2	3/4 Inch	Commercial	1	1,500	$ 25.70	$ 64.16	38.46	149.64%	0.31%
3	2 Inch	Commercial	3	65,000	613.40	1,345.36	731.96	119.33%	0.92%
4	2 Inch	Irrigation	1	-	$ 148.00	$ 324.86	$ 176.86	119.50%	0.31%
5									
6	Construction/Bulk		1	40,501	437.69	919.48	481.79	110.08%	0.31%
7									
8									
9									
10									
11	Totals		326						100.00%
12									
13	Actual Year End Number								
14	of Customers:		327						
15									
16									
17									
18									

Utility Source, LLC - Water Division
Revenue Breakdown Summary
Present Rates

Exhibit
Rejoinder Schedule H-2
Page 3
Witness: Bourassa

		Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
3/4 Inch	Residential	$ 71,262	$ 54,684	$ 23,774	$ 9,908	$ 159,629
3/4 Inch	Commercial	$ 222	$ 89	$ 11	$ -	$ 322
2 Inch	Commercial	$ 5,328	$ 14,424	$ 18,368	$ -	$ 38,120
2 Inch	Irrigation	$ 1,776	$ -	$ -	$ -	$ 1,776
Construction/Bulk		$ 222	$ 3,260	$ -	$ -	$ 3,482
	TOTALS	$ 78,810	$ 72,457	$ 42,153	$ 9,908	$ 203,328
	Percent of Total	38.76%	35.64%	20.73%	4.87%	100.00%
	Cummulative %	38.76%	74.40%	95.13%	100.00%	

	Amount	% of Revenues
Monthly Minimum Revenues	$ 78,810	38.76%
Commodity Revenues		
Lowest Commodity Rate	$ 54,773	26.94%
Middle Commodty Rate	$ 38,209	18.79%
Highest Commodity rate	$ 31,536	15.51%
Subtotal Commodity Revenues	$ 124,518	61.24%
Total Revenues	$ 203,328	100.00%

Utility Source, LLC - Water Division
Revenue Breakdown Summary
Proposed Rates

Exhibit
Rejoinder Schedule H-
Page 4
Witness: Bourassa

		Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
3/4 Inch	Residential	$ 156,420	$ 93,419	$ 52,131	$ 25,001	$ 326,970
3/4 Inch	Commercial	$ 487	$ 290	$ 33	$ -	$ 810
2 Inch	Commercial	$ 11,695	$ 31,628	$ 46,347	$ -	$ 89,670
2 Inch	Irrigation	$ 3,898	$ -	$ -	$ -	$ 3,898
Construction/Bulk		$ 487	$ 6,836	$ -	$ -	$ 7,323
	TOTALS	$ 172,988	$ 132,173	$ 98,510	$ 25,001	$ 428,672
	Percent of Total	40.35%	30.83%	22.98%	5.83%	100.00%
	Cummulative %	40.35%	71.19%	94.17%	100.00%	

	Amount	% of Revenues	
Monthly Minimum Revenues	$ 172,988	40.35%	
Commodity Revenues			
Lowest Commodity Rate	$ 93,709	21.86%	
Middle Commodty Rate	$ 83,791	19.55%	37.79%
Highest Commodity rate	$ 78,184	18.24%	
Subtotal Commodity Revenues	$ 255,684	59.65%	
Total Revenues	$ 428,672	100.00%	

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Rejoinder Schedule H-3
Page 1

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	Meter Size (All Classes):				
2	5/8x3/4 Inch	$ 18.50	$ 40.61	$ 22.11	119.50%
2	3/4 Inch	18.50	40.61	22.11	119.50%
3	1 Inch	46.50	101.52	55.02	118.32%
4	1 1/2 Inch	92.50	203.04	110.54	119.50%
5	2 Inch	148.00	324.86	176.86	119.50%
6	3 Inch	296.00	649.72	353.72	119.50%
7	4 Inch	462.50	1,015.19	552.69	119.50%
8	6 Inch	925.00	2,030.38	1,105.38	119.50%
9					
10					
11					
12	Gallons In Minimum (All Classes)	-	-		
13					

Line No.	Commodity Rates	Block	Present Rate (Per 1,000 gallons)	Proposed Rate (Per 1,000 gallons)
14				
15				
16				
17				
18	5/8x3/4 Inch (Residential, Commercial)	1 gallons to 4,000 gallons	$ 4.80	$ 8.20
19		4,001 gallons to 9,000 gallons	$ 7.16	$ 15.70
20		over 9,000 gallons	$ 8.60	$ 21.70
21				
22	3/4 Inch Meter (Residential, Commercial)	1 gallons to 4,000 gallons	$ 4.80	$ 8.20
23		4,001 gallons to 9,000 gallons	$ 7.16	$ 15.70
24		over 9,000 gallons	$ 8.60	$ 21.70
25				
26	1 Inch Meter (Residential, Commercial)	1 gallons to 27,000 gallons	$ 4.80	$ 15.70
27		over 27,000 gallons	$ 7.16	$ 21.70
28				
29	1.5 Inch Meter (Residential, Commercial)	Over Minimum up to 57,000 gallons	$ 4.80	$ 15.70
30		Over 57,000 gallons	$ 7.16	$ 21.70
31				
32	2 Inch Meter (Residential, Commercial)	1 gallons to 94,000 gallons	$ 4.80	$ 15.70
33		over 94,000 gallons	$ 7.16	$ 21.70
34				
35	3 Inch Meter (Residential, Commercial)	1 gallons to 195,000 gallons	$ 4.80	$ 15.70
36		over 195,000 gallons	$ 7.16	$ 21.70
37				
38				
39				
40	NT = No Tariff			
41				

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Rejoinder Schedule H-3
Page 2

Line No.						
1			(Per 1,000 gallons)			
2				Present		Proposed
3	Commodity Rates	Block		Rate		Rate
4	4 Inch Meter (Residential, Commercial)	1 gallons to 309,000 gallons	$	4.80	$	15.70
5		over 309,000 gallons	$	7.16	$	21.70
7	6 Inch Meter (Residential, Commercial)	1 gallons to 615,000 gallons	$	4.80	$	15.70
8		over 615,000 gallons	$	7.16	$	21.70
10	Irrigation Meters	All gallons	$	9.26	$	15.70
12	Standpipe or Bulk	All gallons	$	10.35	$	21.70
14	Construction	All gallons	$	10.35	$	21.70
42	Construction/Standpipe	All gallons		NT	$	21.70
44	NT = No Tariff					

Utility Source, LLC - Water Division
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Rejoinder Schedule H-3
Page 3
Witness: Bourassa

Meter and Service Line Charges[1]

	Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install-ation Charge	Total Proposed Charge
5/8 x 3/4 Inch	[redacted]	[redacted]	$ 520.00	$ 385.00	$ 135.00	$ 520.00
3/4 Inch	[redacted]	[redacted]	575.00	415.00	205.00	620.00
1 Inch	[redacted]	[redacted]	660.00	465.00	265.00	730.00
1 1/2 Inch	[redacted]	[redacted]	900.00	520.00	475.00	995.00
2 Inch Turbo	[redacted]	[redacted]	1,525.00	800.00	995.00	1,795.00
2 Inch, Compound	[redacted]	[redacted]	2,320.00	800.00	1,840.00	2,640.00
3 Inch Turbo	[redacted]	[redacted]	2,275.00	1,015.00	1,620.00	2,635.00
3 Inch, compound	[redacted]	[redacted]	3,110.00	1,135.00	2,495.00	3,630.00
4 Inch Turbo	[redacted]	[redacted]	3,360.00	1,430.00	2,570.00	4,000.00
4 Inch, compound	[redacted]	[redacted]	4,475.00	1,610.00	3,545.00	5,155.00
6 Inch Turbo	[redacted]	[redacted]	6,035.00	2,150.00	4,925.00	7,075.00
6 Inch, compound	[redacted]	[redacted]	8,050.00	2,270.00	6,820.00	9,090.00

[1] Based on ACC Staff Engineering Memo dated Feburary 21, 2008

Other Charges:

	Present	Proposed
Establishment	$ 20.00	$ 20.00
Establishment (After Hours)	$ 40.00	*Removed
Reconnection (Delinquent)	$ 50.00	$ 50.00
Reconnection (After hours)	$ 40.00	*Removed
Meter Test	$ 20.00	$ 20.00
Minimum Deposit Requirement	PER RULE	PER RULE
Deposit Interest	PER RULE	PER RULE
Re-establishment (Within 12 months)	PER RULE	PER RULE
NSF Check	$ 20.00	$ 20.00
Deferred Payment, per month	1.5%	1.5%
Meter Re-read	$ 10.00	$ 10.00
Late Charge	1.5%	1.5%
Customer requested Meter Test	$ 20.00	$ 20.00
After hours service charge	$ 40.00	$ 40.00
Moving Customer Meter (at customer request)	Cost	Cost

(a) $ 5.00 minimum or 1.5% of unpaid balance whichever is greater.
* After hours service charge will apply when service requested by customer after hours.

Wastewater Rejoinder Schedules

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Line No.			Present Rates	Proposed Rates	Dollar Increase	Percent Increase
1	Fair Value Rate Base				$ 825,856	
2						
3	Adjusted Operating Income				(83,387)	
4						
5	Current Rate of Return				-10.10%	
6						
7	Required Operating Income				$ 90,844	
8						
9	Required Rate of Return				11.00%	
10						
11	Operating Income Deficiency				$ 174,232	
12						
13	Gross Revenue Conversion Factor				1.2021	
14						
15	Increase in Gross Revenue					
16	Requirement				$ 209,436	
17						
18	Adjusted Test Year Revenues				$ 119,464	
19	Increase in Gross Revenue Revenue Requirement				$ 209,436	
20	Proposed Revenue Requirement				$ 328,900	
21	% Increase				175.31%	
22						
23	**Customer**		**Present**	**Proposed**	**Dollar**	**Percent**
24	**Classification**		**Rates**	**Rates**	**Increase**	**Increase**
25	3/4 Inch	Residential	$ 92,479	$ 287,729	$ 195,250	211.13%
26	3/4 Inch	Commercial	114	740	626	547.81%
27	2 Inch	Commercial	23,698	36,829	13,131	55.41%
28					-	0.00%
29	Revenue Annualization		173	741	567	327.23%
30	**Subtotal**		$ 116,465	$ 326,039	$ 209,574	179.95%
31						
32	Other Water Revenues		3,441	3,441	-	0.00%
33	Reconciling Amount		(442)	(580)	(138)	31.22%
34	Rounding				-	0.00%
35	**Total of Water Revenues**		$ 119,464	$ 328,900	$ 209,436	175.31%
36						
37						
38	SUPPORTING SCHEDULES:					
39	B-1					
40	C-1					
41	C-3					
42	H-1					

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
2	Gross Utility Plant in Service	$ 1,397,271	$ 1,397,271
3	Less: Accumulated Depreciation	455,092	455,092
5	Net Utility Plant in Service	$ 942,179	$ 942,179
7	Less:		
8	Advances in Aid of Construction	-	-
10	Contributions in Aid of Construction	197,973	197,973
12	Accumulated Amortization of CIAC	(86,715)	(86,715)
14	Customer Meter Deposits	5,065	5,065
15	Deferred Income Taxes & Credits	-	-
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepayments	-	-
23	Materials and Supplies	-	-
24	Allowance for Working Capital	-	-
28	Total Rate Base	$ 825,856	$ 825,856

Line No.	
43	SUPPORTING SCHEDULES:
44	B-2
45	B-3
46	B-5
47	E-1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at end of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 1,397,271	-	$ 1,397,271
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	455,064	28	455,092
7				
8				
9	Net Utility Plant			
10	in Service	$ 942,207		$ 942,179
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	197,973	-	197,973
18				
19	Accumulated Amortization of CIAC	(86,711)	(4)	(86,715)
20				
21	Customer Meter Deposits	-	5,065	5,065
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				-
26	**Plus:**			
27	Unamortized Finance			
28	Charges	-	-	-
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				-
34	Total	$ 830,945		$ 825,856

45 SUPPORTING SCHEDULES:
46 B-2, pages 2
47 E-1

RECAP SCHEDULES:
B-1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

			Proforma Adjustments					
Line No.		Adjusted at end of Test Year	1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 Customer Deposits	5 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 1,397,271	-					$ 1,397,271
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	455,064		28				455,092
7								
8								
9	Net Utility Plant							
10	in Service	$ 942,207	$ -	$ (28)	$ -	$ -	$ -	$ 942,179
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	197,973						197,973
18								
19	Accumulated Amort of CIAC	(86,711)			(4)			(86,715)
20								
21	Customer Meter Deposits	-				5,065		5,065
22	Accumulated Deferred Income Taxes	-						-
23								
24								
25	**Plus:**							
26	Unamortized Finance							
27	Charges	-						-
28	Prepayments	-						-
29	Materials and Supplies	-						-
30	Allowance for Cash Working Capital	-			-			-
31								
32	Total	$ 830,945	$ -	$ (28)	$ 4	$ (5,065)	$ -	$ 825,856
33								
34								
35								
36	SUPPORTING SCHEDULES:							
37	B-2, pages 3-5							
38	E-1							
39								
40								

RECAP SCHEDULES:
B-1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rejoinder Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Adjusted Original Cost	A Adjustments Required to Reconcile to Reconstruction	B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Rebuttal Adjusted Original Cost
1						Adjustments			
2									
3									
4									
5									
6	351	Organization Cost	-	-					-
7	352	Franchise Cost	-	-					-
8	353	Land and Land Rights	105,000	-					105,000
9	354	Structures & Improvements	56,350	-					56,350
10	355	Power Generation Equipment	2,879	-					2,879
11	360	Collection Sewers - Force	-	-					-
12	361	Collection Sewers - Gravity	260,553	-					260,553
13	362	Special Collecting Structures	-	-					-
14	363	Servcies to Customers	60,375	-					60,375
15	364	Flow Measuring Devices	-	-					-
16	365	Flow Measuring Installations	-	-					-
17	366	Reuse Services	3,450	-					3,450
18	367	Reuse Meters and Meter Installation:	-	-					-
19	370	Receiving Wells	-	-					-
20	371	Pumping Equipment	-	-					-
21	374	Reuse Distribution Reserviors	-	-					-
22	375	Reuse Transmission and Distributior	-	-					-
23	380	Treatment & Disposal Equipment	903,992	-					903,992
24	381	Plant Sewers	-	-					-
25	382	Outfall Sewer Lines	-	-					-
26	389	Other Plant & Misc Equipment	-	-					-
27	390	Office Furniture & Equipment	4,672	(421)					4,251
28	390.1	Computers & Software	-	421					421
29	391	Transportation Equipment	-	-					-
30	392	Stores Equipment	-	-					-
31	393	Tools, Shop & Garage Equipment	-	-					-
32	394	Laboratory Equipment	-	-					-
33	395	Power Operated Equipment	-	-					-
34	396	Communication Equipment	-	-					-
35	397	Miscellaneous Equipment	-	-					-
36	398	Other Tangible Plant	-						-
37		TOTALS	$ 1,397,271	$ (0)	$ -	$ -	$ -	$ -	$ 1,397,271
38									
39		Plant-in-Service per Books							$ 1,397,271
40									
41		Increase (decrease) in Plant-in-Service							$ -
42									
43		Adjustment to Plant-in-Service							$ -
44									
45		SUPPORTING SCHEDULES							
46		B-2, pages 3.1							
47									

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 -A

Exhibit
Rejoinder Schedule B-
Page 3.1
Witness: Bourassa

Reconcilation to Reconstructed Plant-in-Service

Acct. No.	Description	Adjusted Orginal Cost	Plant Per Reconstruction	Adjustment Required
351	Organization Cost	-	-	-
352	Franchise Cost	-	-	-
353	Land and Land Rights	105,000	105,000	-
354	Structures & Improvements	56,350	56,350	-
355	Power Generation Equipment	2,879	2,879	-
360	Collection Sewers - Force	-	-	-
361	Collection Sewers - Gravity	260,553	260,553	-
362	Special Collecting Structures	-	-	-
363	Servcies to Customers	60,375	60,375	-
364	Flow Measuring Devices	-	-	-
365	Flow Measuring Installations	-	-	-
366	Reuse Services	3,450	3,450	-
367	Reuse Meters and Meter Installatior	-	-	-
370	Receiving Wells	-	-	-
371	Pumping Equipment	-	-	-
374	Reuse Distribution Reserviors	-	-	-
375	Reuse Transmission and Distributio	-	-	-
380	Treatment & Disposal Equipment	903,992	903,992	-
381	Plant Sewers	-	-	-
382	Outfall Sewer Lines	-	-	-
389	Other Plant & Misc Equipment	-	-	-
390	Office Furniture & Equipment	4,672	4,251	(421)
390.1	Computers & Software	-	421	421
391	Transportation Equipment	-	-	-
392	Stores Equipment	-	-	-
393	Tools, Shop & Garage Equipment	-	-	-
394	Laboratory Equipment	-	-	-
395	Power Operated Equipment	-	-	-
396	Communication Equipment	-	-	-
397	Miscellaneous Equipment	-	-	-
398	Other Tangible Plant	-	-	-
	TOTALS	$ 1,397,271	$ 1,397,271	$ (0)

SUPPORTING SCHEDULE
B-2, pages 3.2 - 3.8

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.2
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Per Decision 70140 Plant at 12/31/2005	Per Decision 70140 Accum. Deprec. At 12/31/2005	2006 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-	-			-			-		-	-	-
2	352	Franchise	0.00%	-	-			-			-		-	-	-
3	353	Land	0.00%	105,000	-			-			-		-	105,000	-
4	354	Structures & Improvements	3.33%	56,350	2,815			-			-		1,876	56,350	4,691
5	355	Power Generation	5.00%	2,879	216			-			-		144	2,879	360
6	360	Collection Sewer Forced	2.00%	-	-			-			-		-	-	-
7	361	Collection Sewers Gravity	2.00%	260,553	7,817			-			-		5,211	260,553	13,028
8	362	Special Collecting Structures	2.00%	-	-			-			-		-	-	-
9	363	Customer Services	2.00%	60,375	1,811			-			-		1,208	60,375	3,019
10	364	Flow Measuring Devices	10.00%	-	-			-			-		-	-	-
10	365	Flow Measuring Installations	10.00%	-	-			-			-		-	-	-
10	366	Reuse Services	2.00%	3,450	518			-			-		69	3,450	587
12	367	Reuse Meters And Installation	8.33%					-			-		-	-	-
13	370	Receiving Wells	3.33%	-	-			-			-		-	-	-
14	371	Pumping Equipment	12.50%	-	-			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%					-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%					-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%	890,485	66,786			-			-		44,524	890,485	111,311
18	381	Plant Sewers	5.00%	-	-			-			-		-	-	-
19	382	Outfall Sewer Lines	3.33%	-	-			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%	-	-			-			-		-	-	-
22	390.1	Computers and Software	20.00%	-	-			-			-		-	-	-
23	391	Transportation Equipment	20.00%	-	-			-			-		-	-	-
24	392	Stores Equipment	4.00%	-	-			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	-			-			-		-	-	-
26	394	Laboratory Equip	10.00%	-	-			-			-		-	-	-
26	395	Power Operated Equipment	5.00%	-	-			-			-		-	-	-
26	396	Communication Equip	10.00%	-	-			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-			-			-		-	-	-
26	398	Other Tangible Plant	10.00%	-	-			-			-		-	-	-
29				-	-			-			-		-	-	-
30				-	-			-			-		-	-	-
31				-				-			-		-	-	-
32				-				-			-		-	-	-
33				-				-			-		-	-	-
34								-			-		-	-	-
35								-			-		-	-	-
36		TOTALS		1,379,092	79,982	-	-	-	-	-	-	-	53,032	1,379,092	132,995

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.3
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2007									
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%										
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	-	-
4	354	Structures & Improvements	3.33%			-			-		-	105,000	-
5	355	Power Generation	5.00%			-			-		1,876	56,350	6,568
6	360	Collection Sewer Forced	2.00%			-			-		144	2,879	504
7	361	Collection Sewers Gravity	2.00%			-			-		-	-	-
8	362	Special Collecting Structures	2.00%			-			-		5,211	260,553	18,239
9	363	Customer Services	2.00%			-			-		-	-	-
10	364	Flow Measuring Devices	10.00%			-			-		1,208	60,375	4,226
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		-	-	-
12	367	Reuse Meters And Installation	8.33%			-			-		69	3,450	656
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%			-			-		-	-	-
18	381	Plant Sewers	5.00%			-			-		44,524	890,485	155,835
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%			-			-		-	-	-
22	390.1	Computers and Software	20.00%			-			-		-	-	-
23	391	Transportation Equipment	20.00%			-			-		-	-	-
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35						-			-		-	-	-
36		TOTALS		-	-	-	-	-	-	-	53,032	1,379,092	186,027

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.4
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2008 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%			-			-				
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	-	-
4	354	Structures & Improvements	3.33%			-			-		-	105,000	-
5	355	Power Generation	5.00%			-			-		1,876	56,350	8,444
6	360	Collection Sewer Forced	2.00%			-			-		144	2,879	648
7	361	Collection Sewers Gravity	2.00%			-			-		-	-	-
8	362	Special Collecting Structures	2.00%			-			-		5,211	260,553	23,450
9	363	Customer Services	2.00%			-			-		-	-	-
10	364	Flow Measuring Devices	10.00%			-			-		1,208	60,375	5,434
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		-	-	-
12	367	Reuse Meters And Installation	8.33%			-			-		69	3,450	725
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%	13,507		13,507			-		-	-	-
18	381	Plant Sewers	5.00%			-			-		44,862	903,992	200,687
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%	2,562		2,552			-		-	-	-
22	390.1	Computers and Software	20.00%			-			-		85	2,552	85
23	391	Transportation Equipment	20.00%			-			-		-	-	-
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35						-			-		-	-	-
36		TOTALS		16,059	-	16,059	-	-	-	-	53,455	1,395,151	239,482

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.5
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009 Plant Additions (Per Books)	Plant Adjustments[1]	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%			-			-		-	-	-
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	105,000	-
4	354	Structures & Improvements	3.33%			-			-		1,876	56,350	10,321
5	355	Power Generation	5.00%			-			-		144	2,879	792
6	360	Collection Sewer Forced	2.00%			-			-		-	-	-
7	361	Collection Sewers Gravity	2.00%			-			-		5,211	260,553	28,661
8	362	Special Collecting Structures	2.00%			-			-		-	-	-
9	363	Customer Services	2.00%			-			-		1,208	60,375	6,641
10	364	Flow Measuring Devices	10.00%			-			-		-	-	-
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		69	3,450	784
12	367	Reuse Meters And Installation	8.33%			-			-		-	-	-
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%			-			-		45,200	903,992	245,896
18	381	Plant Sewers	5.00%			-			-		-	-	-
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%			-			-		170	2,552	256
22	390.1	Computers and Software	20.00%			-			-		-	-	-
23	391	Transportation Equipment	20.00%			-			-		-	-	-
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35													
36		TOTALS		-	-	-	-	-	-	-	53,878	1,395,151	293,360

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.6
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%			-			-		-	-	-
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	-	-
4	354	Structures & Improvements	3.33%			-			-		-	105,000	-
5	355	Power Generation	5.00%			-			-		1.876	56,350	12,197
6	360	Collection Sewer Forced	2.00%			-			-		144	2,879	936
7	361	Collection Sewers Gravity	2.00%			-			-		-	-	-
8	362	Special Collecting Structures	2.00%			-			-		5,211	260,553	33,872
9	363	Customer Services	2.00%			-			-		-	-	-
10	364	Flow Measuring Devices	10.00%			-			-		1,208	60,375	7,849
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		-	-	-
12	367	Reuse Meters And Installation	8.33%			-			-		69	3,450	863
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%			-			-		-	-	-
18	381	Plant Sewers	5.00%			-			-		45,200	903,992	291,096
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%			-			-		-	-	-
22	390.1	Computers and Software	20.00%			-			-		170	2.552	426
23	391	Transportation Equipment	20.00%			-			-		-	-	-
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35						-			-		-	-	-
36		TOTALS		-	-	-	-	-	-	-	53,876	1,395,151	347,237

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.7
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%			-			-		-	-	-
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	-	-
4	354	Structures & Improvements	3.33%			-			-		-	105,000	-
5	355	Power Generation	5.00%			-			-		1,676	58,350	14,073
6	360	Collection Sewer Forced	2.00%			-			-		144	2,879	1,080
7	361	Collection Sewers Gravity	2.00%			-			-		-	-	-
8	362	Special Collecting Structures	2.00%			-			-		5,211	260,553	39,083
9	363	Customer Services	2.00%			-			-		-	-	-
10	364	Flow Measuring Devices	10.00%			-			-		1,208	60,376	9,056
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		-	-	-
12	367	Reuse Meters And Installation	8.33%			-			-		69	3,450	932
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%			-			-		-	-	-
18	381	Plant Sewers	5.00%			-			-		45,200	903,992	336,296
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%			-			-		-	-	-
22	390.1	Computers and Software	20.00%			-			-		170	2,552	596
23	391	Transportation Equipment	20.00%			-			-		-	-	-
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35						-			-		-	-	-
36		TOTALS		-	-	-	-	-	-	-	53,678	1,385,151	401,115

Utility Source, LLC - Wastewater Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 3.8
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%			-			-		-	-	-
2	352	Franchise	0.00%			-			-		-	-	-
3	353	Land	0.00%			-			-		-	105,000	-
4	354	Structures & Improvements	3.33%			-			-		1,876	56,360	15,950
5	355	Power Generation	5.00%			-			-		144	2,879	1,224
6	360	Collection Sewer Forced	2.00%			-			-		-	-	-
7	361	Collection Sewers Gravity	2.00%			-			-		5,211	260,553	44,294
8	362	Special Collecting Structures	2.00%			-			-		-	-	-
9	363	Customer Services	2.00%			-			-		1,208	60,375	10,264
10	364	Flow Measuring Devices	10.00%			-			-		-	-	-
10	365	Flow Measuring Installations	10.00%			-			-		-	-	-
10	366	Reuse Services	2.00%			-			-		69	3,450	1,001
12	367	Reuse Meters And Installation	8.33%			-			-		-	-	-
13	370	Receiving Wells	3.33%			-			-		-	-	-
14	371	Pumping Equipment	12.50%			-			-		-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-		-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-		-	-	-
17	380	Treatment & Disposal Equipment	5.00%			-			-		45,200	903,992	381,495
18	381	Plant Sewers	5.00%			-			-		-	-	-
19	382	Outfall Sewer Lines	3.33%			-			-		-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-		-	-	-
21	390	Office Furniture & Equipment	6.67%	1,698		1,698			-		227	4,251	823
22	390.1	Computers and Software	20.00%	421		421			-		42	421	42
23	391	Transportation Equipment	20.00%			-			-		-	-	-
24	392	Stores Equipment	4.00%			-			-		-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-		-	-	-
26	394	Laboratory Equip	10.00%			-			-		-	-	-
26	395	Power Operated Equipment	5.00%			-			-		-	-	-
26	396	Communication Equip	10.00%			-			-		-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-		-	-	-
26	398	Other Tangible Plant	10.00%			-			-		-	-	-
29						-			-		-	-	-
30						-			-		-	-	-
31						-			-		-	-	-
32						-			-		-	-	-
33						-			-		-	-	-
34						-			-		-	-	-
35						-			-		-	-	-
36		TOTALS		2,119	-	2,119	-	-	-	-	53,977	1,397,271	455,092

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rejoinder Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A Adjustments Required to Reconcile to Reconstruction	B Intentionally Left Blank	Adjustments C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Rebuttal Adjusted Accum. Depr.
1									
2									
3									
4									
5									
6	351	Organization Cost	-	-					-
7	352	Franchise Cost	-	-					-
8	353	Land and Land Rights	-	-					-
9	354	Structures & Improvements	15,950	-					15,950
10	355	Power Generation Equipment	1,224	-					1,224
11	360	Collection Sewers - Force	-	-					-
12	361	Collection Sewers - Gravity	44,294	-					44,294
13	362	Special Collecting Structures	10,264	-					10,264
14	363	Servcies to Customers	-	-					-
15	364	Flow Measuring Devices	1,001	-					1,001
16	365	Flow Measuring Installations	-	-					-
17	366	Reuse Services	-	-					-
18	367	Reuse Meters and Meter Installations	-	-					-
19	370	Receiving Wells	-	-					-
20	371	Pumping Equipment	381,495	-					381,495
21	374	Reuse Distribution Reserviors	-	-					-
22	375	Reuse Transmission and Distribution	-	-					-
23	380	Treatment & Disposal Equipment	837	(14)					823
24	381	Plant Sewers	-	42					42
25	382	Outfall Sewer Lines	-	-					-
26	389	Other Plant & Misc Equipment	-	-					-
27	390	Office Furniture & Equipment	-	-					-
28	390.1	Computers & Software	-	-					-
29	391	Transportation Equipment	-	-					-
30	392	Stores Equipment	-	-					-
31	393	Tools, Shop & Garage Equipment	-	-					-
32	394	Laboratory Equipment	-	-					-
33	395	Power Operated Equipment	-	-					-
34	396	Communication Equipment	-	-					-
35	397	Miscellaneous Equipment	-	-					-
36	398	Other Tangible Plant	-						-
37		TOTALS	$ 455,064	$ 28	$ -	$ -	$ -	$ -	$ 455,092
38									
39		Accumulated Depreciation per Books							$ 455,064
40									
41		Increase (decrease) in Accumulated Depreciation							$ 28
42									
43		Adjustment to Accumulated Depreciation							$ 28
44									
45		SUPPORTING SCHEDULES							
46		B-2, pages 4.1							
47									

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 -A

Exhibit
Rejoinder Schedule B-
Page 4.1
Witness: Bourassa

Line No.					
1	Reconcilation to Reconstructed Accumulated Depreciation				
2				Accumulated	
3			Adjusted	Depreciation	
4	Acct.		Accumulated	Per Plant	Adjustment
5	No.	Description	Depreciation	Reconstruction	Required
6	351	Organization Cost	-	-	-
7	352	Franchise Cost	-	-	-
8	353	Land and Land Rights	-	-	-
9	354	Structures & Improvements	15,950	15,950	-
10	355	Power Generation Equipment	1,224	1,224	-
11	360	Collection Sewers - Force	-	-	-
12	361	Collection Sewers - Gravity	44,294	44,294	-
13	362	Special Collecting Structures	10,264	10,264	-
14	363	Servcies to Customers	-	-	-
15	364	Flow Measuring Devices	1,001	1,001	-
16	365	Flow Measuring Installations	-	-	-
17	366	Reuse Services	-	-	-
18	367	Reuse Meters and Meter Installatior	-	-	-
19	370	Receiving Wells	-	-	-
20	371	Pumping Equipment	381,495	381,495	-
21	374	Reuse Distribution Reserviors	-	-	-
22	375	Reuse Transmission and Distributio	-	-	-
23	380	Treatment & Disposal Equipment	837	823	(14)
24	381	Plant Sewers	-	42	42
25	382	Outfall Sewer Lines	-	-	-
26	389	Other Plant & Misc Equipment	-	-	-
27	390	Office Furniture & Equipment	-	-	-
28	390.1	Computers & Software	-	-	-
29	391	Transportation Equipment	-	-	-
30	392	Stores Equipment	-	-	-
31	393	Tools, Shop & Garage Equipment	-	-	-
32	394	Laboratory Equipment	-	-	-
33	395	Power Operated Equipment	-	-	-
34	396	Communication Equipment	-	-	-
35	397	Miscellaneous Equipment	-	-	-
36	398	Other Tangible Plant	-	-	-
37		TOTALS	$ 455,064	$ 455,092	$ 28
38					
39					
40	SUPPORTING SCHEDULE				
41	B-2, pages 3.2 - 3.8				
42					

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rejoinder Schedule B-2
Page 5.0
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

	Gross CIAC	Accumulated Amortization
Computed balance at end of test year	$ 197,973	$ 86,715
Adjusted balance at end of test year	$ 197,973	$ 86,711
Increase (decrease)	$ -	$ 4
Adjustment to CIAC/AA CIAC	$ -	$ (4)
Label	3a	3b

SUPPORTING SCHEDULES
E-1
B-2, page 5.1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Contributions-in-aid of Construction (CIAC)

Exhibit
Rejoinder Schedule B-2
Page 5.1
Witness: Bourassa

		2006		2007		2008		2009	
	Balance 12/31/2005	Additions	Balance 12/31/2006	Additions	Balance 12/31/2007	Additions	Balance 12/31/2008	Additions	Balance 12/31/2009
CIAC	197,973		197,973		197,973		197,973		197,973
Amortization Decision No. 70140	12,425								
Amortization Rate			4.16%		4.16%		4.14%		4.18%
Amortization (1/2 yr convention)			8,240		8,240		8,203		8,268
Accumulated Amortization			20,665		28,906		37,108		45,376
Net CIAC	185,548	-	177,308	-	169,067	-	160,865	-	152,597

	2010		2011		2012	
	Additions	Balance 12/31/2010	Additions	Balance 12/31/2011	Additions	Balance 12/31/2012
CIAC	-	197,973	-	197,973	-	197,973
Amortization Rate		4.18%		4.18%		4.18%
Amortization (1/2 yr convention)		8,268		8,268		8,269
Accumulated Amortization		70,178		78,446		86,715
Net CIAC	-	127,795	-	119,527	-	111,258

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Customer Deposits

Exhibit
Rejoinder Schedule B-2
Page 6
Witness: Bourassa

Line No.			
1			
2			
3			
4	Staff recommended balance	$	5,065
5			
6	Book balance at end of test year	$	-
7			
8	Increase (decrease)	$	5,065
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	Testimony		
21			
22			
23			
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33			
34			
35			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Computation of Working Capital

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Cash Working Capital (1/8 of Allowance Operation and Maintenance Expense)	$	16,175
Pumping Power (1/24 of Pumping Power)		1,092
Purchased Water (1/24 of Purchased Water)		527
Prepaid Expenses		
Total Working Capital Allowance	$	17,795
Working Capital Requested	**$**	**-**

	Adjusted Test Year	
Total Operating Expense	$	202,851
Less:		
Income Tax	$	(15,616)
Property Tax		4,401
Depreciation		45,791
Purchased Water		12,659
Pumping Power		26,213
Allowable Expenses	$	129,403
1/8 of allowable expenses	$	16,175

SUPPORTING SCHEDULES:
E-1

RECAP SCHEDULES:
B-1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**					
2	Flat Rate Revenues	$ -	$ -	$ -	$ -	$ -
3	Unmetered Water Revenues	116,023	-	116,023	209,436	325,458
4	Other Water Revenues	5,261	(1,820)	3,441		3,441
5		$ 121,284	$ (1,820)	$ 119,464	$ 209,436	$ 328,900
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Water	-	-	-		-
9	Purchased Power	26,213	-	26,213		26,213
10	Sludge Removal	12,659	-	12,659		12,659
11	Chemicals	5,400	-	5,400		5,400
12	Materials and Supplies	7,187	-	7,187		7,187
13	Office Supplies and Expense	2,446	-	2,446		2,446
14	Contractual Services - Accounting	20,135	-	20,135		20,135
15	Contractual Services - Professional	1,920	-	1,920		1,920
16	Contractual Services - Maintenance	-	-	-		-
17	Contractual Services - Other	46,650	-	46,650		46,650
18	Water Testing	5,669	8,858	14,527		14,527
19	Rents	-	-	-		-
20	Transportation Expenses	3,250	(1,750)	1,500		1,500
21	Insurance - General Liability	2,186	-	2,186		2,186
22	Insurance - Health and Life	-	-	-		-
23	Reg. Comm. Exp. - Other	-	-	-		-
24	Reg. Comm. Exp. - Rate Case	10,000	6,667	16,667		16,667
25	Miscellaneous Expense	13,152	(2,366)	10,786		10,786
26	Bad Debt Expense	-	-	-		-
27	Depreciation and Amortization Expense	45,744	48	45,791		45,791
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	4,476	(75)	4,401	2,576	6,977
30	Income Tax	(13,545)	(2,071)	(15,616)	32,628	17,012
31			-	-		-
32	**Total Operating Expenses**	$ 193,541	$ 9,310	$ 202,851	$ 35,204	$ 238,056
33	**Operating Income**	$ (72,257)	$ (11,130)	$ (83,387)	$ 174,232	$ 90,844
34	**Other Income (Expense)**					
35	Interest Income	-	-	-		-
36	Other income	-	-	-		-
37	Interest Expense	-	-	-		-
38	Other Expense	-	-	-		-
39		-	-	-		-
40	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
41	**Net Profit (Loss)**	$ (72,257)	$ (11,130)	$ (83,387)	$ 174,232	$ 90,844
42						
43	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
44	C-1, page 2				A-1	
45	E-2					
46						

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 2.1
Witness: Bourassa

Line No.		LABEL>>>>> Test Year Adjusted Results	1 Depreciation	2 Property Taxes	3 Rate Case Expense	4 Revenue Adjustment	5 Water Testing	6 Auto Expense	7 Telephone Expense
1	**Revenues**								
2	Flat Rate Revenues	$ -							
3	Measured Revenues	116,023							
4	Other Water Revenues	5,261				(1,820)			
5		$ 121,284	$ -	$ -	$ -	$ (1,820)	$ -	$ -	$ -
6	**Operating Expenses**								
7	Salaries and Wages	$ -							
8	Purchased Water	-							
9	Purchased Power	26,213							
10	Sludge Removal	12,659							
11	Chemicals	5,400							
12	Materials and Supplies	7,187							
13	Office Supplies and Expense	2,446							
14	Contractual Services - Accounting	20,135							
15	Contractual Services - Professional	1,920							
16	Contractual Services - Maintenance	-							
17	Contractual Services - Other	46,650							
18	Water Testing	5,669					8,858		
19	Rents	-							
20	Transportation Expenses	3,250						(1,750)	
21	Insurance - General Liability	2,186							
22	Insurance - Health and Life	-							
23	Reg. Comm. Exp. - Other	-							
24	Reg. Comm. Exp. - Rate Case	10,000			6,667				
25	Miscellaneous Expense	13,152							(2,366)
26	Bad Debt Expense	-							
27	Deprec. and Amort. Exp.	45,744	48						
28	Taxes Other Than Income	-							
29	Property Taxes	4,476		(75)					
30	Income Tax	(13,545)							
31									
32	**Total Operating Expenses**	$ 193,541	$ 48	$ (75)	$ 6,667	$ -	$ 8,858	$ (1,750)	$ (2,366)
33	**Operating Income**	$ (72,257)	$ (48)	$ 75	$ (6,667)	$ (1,820)	$ (8,858)	$ 1,750	$ 2,366
34	**Other Income (Expense)**								
35	Interest Income	-							
36	Other income	-							
37	Interest Expense	-							
38	Other Expense	-							
39		-							
40	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
41	**Net Profit (Loss)**	$ (72,257)	$ (48)	$ 75	$ (6,667)	$ (1,820)	$ (8,858)	$ 1,750	$ 2,366
42									
43	SUPPORTING SCHEDULES:								
44	C-2								
45	E-2								

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 2.2
Witness: Bourassa

Line No.		8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Income Taxes	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues							
2	Flat Rate Revenues							
3	Measured Revenues					$ -		$ -
4	Other Water Revenues					116,023	209,436	325,458
5						3,441		3,441
6	Operating Expenses	$ -	$ -	$ -	$ -	$ 119,464	$ 209,436	$ 328,900
7	Salaries and Wages							
8	Purchased Water					$ -		$ -
9	Purchased Power					-		-
10	Sludge Removal					26,213		26,213
11	Chemicals					12,659		12,659
12	Materials and Supplies					5,400		5,400
13	Office Supplies and Expense					7,187		7,187
14	Contractual Services - Accounting					2,446		2,446
15	Contractual Services - Professional					20,135		20,135
16	Contractual Services - Maintenance					1,920		1,920
17	Contractual Services - Other					-		-
18	Water Testing					46,650		46,650
19	Rents					14,527		14,527
20	Transportation Expenses					-		-
21	Insurance - General Liability					1,500		1,500
22	Insurance - Health and Life					2,186		2,186
23	Reg. Comm. Exp. - Other					-		-
24	Reg. Comm. Exp. - Rate Case					-		-
25	Miscellaneous Expense					16,667		16,667
26	Bad Debt Expense					10,786		10,786
27	Deprec. and Amort. Exp.					-		-
28	Taxes Other Than Income					45,791		45,791
29	Property Taxes					-		-
30	Income Tax					4,401	2,576	6,977
31					(2,071)	(15,616)	32,628	17,012
32	Total Operating Expenses	$ -	$ -	$ -	$ (2,071)	$ 202,851	$ 35,204	$ 238,056
33	Operating Income	$ -	$ -	$ -	$ 2,071	$ (83,387)	$ 174,232	$ 90,844
34	Other Income (Expense)							
35	Interest Income					-		-
36	Other income					-		-
37	Interest Expense					-		-
38	Other Expense					-		-
39						-		-
40	Total Other Income (Expense)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
41	Net Profit (Loss)	$ -	$ -	$ -	$ 2,071	$ (83,387)	$ 174,232	$ 90,844
42								
43	SUPPORTING SCHEDULES:							
44	C-2					RECAP SCHEDULES:		
45	E-2					C-1, page 1		

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

	1 Depreciation Expense	2 Property Taxes	3 Rate Case Expense	4 Revenue Adjustment	5 Water Testing	6 Auto Expense	Subtotal
Revenues	-	-	-	(1,820)	-	-	(1,820)
Expenses	48	(75)	6,667	-	8,858	(1,750)	13,747
Operating Income	(48)	75	(6,667)	(1,820)	(8,858)	1,750	(15,567)
Interest Expense						-	-
Other Income / Expense							-
Net Income	(48)	75	(6,667)	(1,820)	(8,858)	1,750	(15,567)

Adjustments to Revenues and Expenses

	7 Telephone Expense	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Income Taxes		Subtotal
Revenues	-	-	-	-	-		(1,820)
Expenses	(2,366)	-	-	-	(2,071)	-	9,310
Operating Income	2,366	-	-	-	2,071	-	(11,130)
Interest Expense							-
Other Income / Expense							-
Net Income	2,366	-	-	-	2,071	-	(11,130)

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rejoinder Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.							
1							
2					Adjusted		
3	Acct.		Original	Non-depreciable/	Original	Proposed	Depreciation
4	No.	Description	Cost	Fully Depreciated	Cost	Rates	Expense
5	351	Organization Cost	-	-	-	0.00%	-
6	352	Franchise Cost	-	-	-	0.00%	-
7	353	Land and Land Rights	105,000	(105,000)	-	0.00%	-
8	354	Structures & Improvements	56,350		56,350	3.33%	1,876
9	355	Power Generation Equipment	2,879		2,879	5.00%	144
10	360	Collection Sewers - Force	-		-	2.00%	-
11	361	Collection Sewers - Gravity	260,553		260,553	2.00%	5,211
12	362	Special Collecting Structures	-		-	2.00%	-
13	363	Servcies to Customers	60,375		60,375	2.00%	1,208
14	364	Flow Measuring Devices	-		-	10.00%	-
15	365	Flow Measuring Installations	-		-	10.00%	-
16	366	Reuse Services	3,450		3,450	2.00%	69
17	367	Reuse Meters and Meter Installations	-		-	8.33%	-
18	370	Receiving Wells	-		-	3.57%	-
19	371	Pumping Equipment	-		-	10.00%	-
20	374	Reuse Distribution Reserviors	-		-	2.50%	-
21	375	Reuse Transmission and Distribution	-		-	2.00%	-
22	380	Treatment & Disposal Equipment	903,992		903,992	5.00%	45,200
23	381	Plant Sewers	-	-	-	5.00%	-
24	382	Outfall Sewer Lines	-		-	3.33%	-
25	389	Other Plant & Misc Equipment	-		-	6.67%	-
26	390	Office Furniture & Equipment	4,251		4,251	6.67%	284
27	390.1	Computers & Software	421		421	20.00%	84
28	391	Transportation Equipment	-		-	20.00%	-
29	392	Stores Equipment	-		-	4.00%	-
30	393	Tools, Shop & Garage Equipment	-		-	10.00%	-
31	394	Laboratory Equipment	-		-	10.00%	-
32	395	Power Operated Equipment	-		-	5.00%	-
33	396	Communication Equipment	-		-	10.00%	-
34	397	Miscellaneous Equipment	-		-	10.00%	-
35	398	Other Tangible Plant	-		-	10.00%	-
36							
37							
38					-	10.00%	-
39		TOTALS	$ 1,397,271	$ (105,000)	$ 1,292,271		$ 54,075
40							
41					Gross CIAC	Amort. Rate	
42		Less: Amortization of Contributions			$ 197,973	4.1845%	$ (8,284)
43		Total Depreciation Expense					$ 45,791
44							
45		Adjusted Test Year Depreciation Expense					45,744
46							
47		Increase (decrease) in Depreciation Expense					48
48							
49		Adjustment to Revenues and/or Expenses					$ 48
50							
51		SUPPORTING SCHEDULE					
52		B-2, page 3			*Fully Depreciated		

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rejoinder Schedul
Page 3
Witness: Bourass

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 119,464	$ 119,464
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	238,928	238,928
4	Company Recommended Revenue	119,464	328,900
5	Subtotal (Line 4 + Line 5)	358,391	567,827
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	119,464	189,276
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	238,928	378,551
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	421	421
12	Full Cash Value (Line 9 + Line 10 - Line 11)	238,507	378,130
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	47,701	75,626
15	Composite Property Tax Rate - Obtained from ADOR	9.2262%	9.2262%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 4,401	$ 6,977
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 4,401	
19	Adjusted Test Year Property Taxes	$ 4,476	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	$ (75)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 6,977
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 4,401
24	Increase in Property Tax Due to Increase in Revenue Requirement		$ 2,576
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 2,576
27	Increase in Revenue Requirement		$ 209,436
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.23016%
29			
30			
31			
32			
33			
34			
35			
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37			
38			
39			
40			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Rate Case Expense

Estimated Rate Case Expense	$	50,000
Estimated Amortization Period in Years		3
Annual Rate Case Expense	$	16,667
Adjusted Test Year Rate Case Expense	$	10,000
Increase(decrease) Rate Case Expense	$	6,667
Adjustment to Revenue and/or Expense	$	6,667

Reference
Testimony

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Revenue Adjustment

Line No.			
1			
2	Revenue Adjustment	$	(1,820)
3			
4			
5			
6	Total Revenue from Annualization	$	(1,820)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(1,820)
10			
11	Reference		
12	Staff Adjustment # 1		
13			
14			
15			
16			
17			
18			
19			
20			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
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Witness: Bourassa

Water Testing

Staff Recommended Water Testing Expense	$	14,527
Adjuste Test Year Water Testing Expense	$	5,669
Adjustment to purchased power expense (rounded)	$	8,858
Adjustment to Revenue and/or Expense		8,858

Reference
Staff Adjustment #3

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Auto Expense

Line No.			
1			
2			
3	Test Year Auto Expense	$	1,500
4			
5	Staff Recommended Auto Expense		3,250
6			
7	Adjustment to Revenues	$	(1,750)
8			
9			
10	Adjustment to Revenue and/or Expense		(1,750)
11			
12	Reference		
13	Staff Adjustment #3		
14			
15			
16			
17			
18			
19			
20			
21			
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23			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Telephone Expense

Line No.			
1			
2	Staff Recommended Telephone Expense	$	2,366
3			
4	Adjusted Test Year Telephone Expense		4,732
5			
6	Adjustment to Revenues	$	(2,366)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(2,366)
10			
11	Reference		
12	Staff Adjustment #4		
13			
14			
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 9

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Line No.
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Schedule C-2
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Witness: Bourassa

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Line
No.

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 11

Exhibit
Rejoinder Schedule C-2
Page 12
Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Compauted Income Tax	$ (15,616)	$ 17,012
5	Test Year Income tax Expense	(13,545)	(15,616)
6	Adjustment to Income Tax Expense	$ (2,071)	$ 32,628
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULE		
14	C-3, page 2		
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	15.773%
3	Property Taxes	1.036%
6	Total Tax Percentage	16.809%
8	Operating Income % = 100% - Tax Percentage	83.191%
13–14	$\frac{1}{\text{Operating Income \%}}$ = Gross Revenue Conversion Factor	1.2021

Line No.	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012

Exhibit
Rejoinder Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollecible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	16.8091%					
5	Subtotal (L3 - L4)	83.1909%					
6	Revenue Conversion Factor (L1 / L5)	1.202055					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	15.7730%					
9	One Minus Combined Income Tax Rate (L7 - L8)	84.2270%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	2.8074%					
14	Federal Taxable Income (L12 - L13)	97.1926%					
15	Applicable Federal Income Tax Rate (L55 Col F)	13.3401%					
16	Effective Federal Income Tax Rate (L14 x L15)	12.9656%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		15.7730%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	15.7730%					
20	One Minus Combined Income Tax Rate (L18-L19)	84.2270%					
21	Property Tax Factor	1.2302%					
22	Effective Property Tax Factor (L20*L21)		1.0361%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			16.8091%			
24	Required Operating Income	$ 90,844					
25	AdjustedTest Year Operating Income (Loss)	$ (83,387)					
26	Required Increase in Operating Income (L24 - L25)		$ 174,232				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	$ 17,012					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	$ (15,616)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 32,628				
30	Recommended Revenue Requirement	$ 328,900					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -					
33	Adjusted Test Year Uncollectible Expense	$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ -				
35	Property Tax with Recommended Revenue	$ 6,977					
36	Property Tax on Test Year Revenue	$ 4,401					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 2,576				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 209,436				

Line No.		(A) Test Year Total	(B) Test Year	(C) Test Year Wastewater	(D) Company Recommended Total	(E) Company Recommended	(F) Company Recommended Wastewater
	Calculation of Income Tax:						
39	Revenue	$ 119,464		$ 119,464	$ 328,900		$ 328,900
40	Operating Expenses Excluding Income Taxes	218,467		218,467	221,043		221,043
41	Synchronized Interest (L47)	-		-	-		-
42	Arizona Taxable Income (L39 - L40 - L41)	$ (99,003)		$ (99,003)	$ 107,856		$ 107,856
43	Arizona State Effective Income Tax Rate (see work papers)	2.8074%		2.8074%	2.8074%		2.8074%
44	Arizona Income Tax (L42 x L43)	$ (2,779)		$ (2,779)	$ 3,028		$ 3,028
45	Federal Taxable Income (L42- L44)	$ (96,224)		$ (96,224)	$ 104,828		$ 104,828
46	Federal Tax Rate	13.3401%		13.3401%	13.3401%		13.3401%
47	Federal Tax	$ (12,836)		$ (12,836.35)	$ 13,984		$ 13,984
48							
49							
50							
51							
52							
53	Total Federal Income Tax	$ (12,836)		$ (12,836)	$ 13,984		$ 13,984
54	Combined Federal and State Income Tax (L35 + L42)	$ (15,616)		$ (15,616)	$ 17,012		$ 17,012
55	COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]				13.3401%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]						
57	WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45]						13.3401%

Line No.	*Calculation of Interest Synchronization:*	Water	Wastewater
58	Rate Base	$ 1,575,194	$ 825,856
59	Weighted Average Cost of Debt	0.0000%	0.0000%
60	Synchronized Interest (L59 X L60)	$ -	$ -

Utility Source, LLC - Wastewater Division
Revenue Summary
Test Year Ended December 31, 2012

Exhibit
Rejoinder Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	3/4 Inch	Residential	$ 92,479	$ 287,729	$ 195,250	211.13%	77.41%	87.48%
2	3/4 Inch	Commercial	114	740	626	547.81%	0.10%	0.22%
3	2 Inch	Commercial	23,698	36,829	13,131	55.41%	19.84%	11.20%
4								
5								
6								
7								
8								
9	**Subtotals of Revenues**		$ 116,291	$ 325,298	$ 209,007	179.73%	97.34%	98.90%
10	**Revenue Annualizations:**							
11	3/4 Inch	Residential	$ 173	$ 741	$ 567	327.23%	0.15%	0.23%
12								
13								
14								
15								
16	**Subtotal Revenue Annualization**		173	741	567	327.23%	0.15%	0.62%
17								
18	**Total Revenues w/ Annualization**		$ 116,465	$ 326,039	$ 209,574	179.95%	97.49%	99.13%
19	**Misc Revenues, as adjusted**		3,441	3,441	-	0.00%	2.88%	1.05%
20	**Reconciling Amount**		(442)	(580)	(138)	31.22%	-0.37%	-0.18%
21	**Total Revenues**		$ 119,464	$ 328,900	$ 209,436	175.31%	100.00%	100.00%
22								
23								

Utility Source, LLC - Wastewater Division
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Rejoinder Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		(a) Average Number of Customers at 12/31/2012	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	3/4 Inch	Residential	320	4,123	$ 24.08	$ 74.91	$ 50.83	211.13%	98.77%
2	3/4 Inch	Commercial	1	1,667	9.52	61.66	52.14	547.81%	0.31%
3	2 Inch	Commercial	3	115,286	658.29	1,023.04	364.75	55.41%	0.93%
4									
5									
6									
7									
8									
9									
10									
11									
12	Totals		324						100.00%
13									
14	Actual Year End Number								
15	of Customers:		325						
16									
17									
18									
19									

Utility Source, LLC - Wastewater Division
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Rejoinder Schedule H-2
Page 2
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		(a) Average Number of Customers at 12/31/2012	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	3/4 Inch	Residential	320	3,500	$ 20.44	$ 71.60	$ 51.16	250.30%	98.77%
2	3/4 Inch	Commercial	1	1,500	$ 8.57	$ 60.79	52.23	609.80%	0.31%
3	2 Inch	Commercial	3	65,000	371.15	761.75	390.60	105.24%	0.93%
4									
5									
6									
7									
8									
9									
10									
11	Totals		324						100.00%
12									
13	Actual Year End Number								
14	of Customers:		325						
15									
16									
17									
18									

Utility Source, LLC - Wastewater Division
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Rejoinder Schedule H-:
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size (Residential, Commercial)		Present Rates		Proposed Rates
1	**Monthly Usage Charge for:**				
2	5/8 x 3/4 Inch	$	-	$	53.00
3	3/4 Inch		-		53.00
4	1 Inch		-		132.50
5	1 1/2 Inch		-		265.00
6	2 Inch		-		424.00
7	3 Inch		-		848.00
8	4 Inch		-		1,325.00
9	6 Inch				2,650.00
10					
11	Gallons In Minimum				
12	All Meter Sizes		-		-
13					
14	Rate per 1,000 Gallons of Water Usage				
15	Residential	$	5.84	$	5.31
16	Commercial and Industrial				
17	Car washes, laundromats, Commercial, Manufacturing		5.71		5.20
18	Hotels, Motels		7.66		6.97
19	Restauarants		9.46		8.61
20	Industrial Laundries		8.39		7.63
21	Waste haulers		171.20		155.79
22	Restuarant Grease		149.80		136.32
23	Treatment Plant Sludge		171.20		155.79
24	Mud Sump Waste		535.00		486.85
25					
26					
27					
28					
29					
30					

Utility Source, LLC - Wastewater Division
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Rejoinder Schedule H-3
Page 3
Witness: Bourassa

Other Charges:

Establishment	$ 20.00	$ 20.00
Establishment (After Hours)	$ 40.00	*Removed
Reconnection (Delinquent)	$ 50.00	$ 50.00
Reconnection (Delinquent and After hours)	$ 40.00	*Removed
Minimum Deposit Requirement	PER RULE	PER RULE
Deposit Interest	PER RULE	PER RULE
Re-establishment (Within 12 months)	PER RULE	PER RULE
NSF Check	$ 20.00	$ 20.00
Deferred Payment, per month	PER RULE	PER RULE
Late Charge	PER RULE	PER RULE
After hours service charge	$ 40.00	$ 40.00

* After hours service charge will apply when service requested by customer after hours.

ATTACHMENT 2

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-03437A-13-0331

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

(COST OF CAPITAL)

November 7, 2014

0106807

TABLE OF CONTENTS

For convenience, that testimony and my related schedules are contained in separate volumes.

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?

A. No. I updated my cost of capital analysis on my rebuttal testimony filed on October 3, 2014. I updated my cost of capital in my rebuttal testimony because of the significant period of time between the Company's direct filing and its rebuttal filing. I did not feel the need to provide an additional update at this time because my rebuttal update is approximately 1 month old.

Q. PLEASE SUMMARIZE YOUR RECOMMENDED REJOINDER COST OF DEBT AND EQUITY, AND YOUR RECOMMENDED REJOINDER RATE OF RETURN ON RATE BASE.

A. I continue to recommend a cost of equity of 11.0 percent based on my most recent cost of capital analysis. The range of my rebuttal DCF, CAPM, and Build-up Method analyses is 9.0 percent to 11.6 percent with a mid-point of 10.3 percent. My opinion that a return on equity of 11.0 percent for USLLC given its size and greater risk compared to the public traded water utilities is conservative. The Company's recommended capital structure consists of 0 percent debt and 100 percent common equity as shown on Rejoinder Schedule D-1. Based on the Company's recommended cost of equity and capital structure, the Company's weighted cost of capital ("WACC") is 11.0 percent, as shown on Rejoinder Schedule D-1.

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. On behalf of Applicant Utility Source, LLC ("USLLC" or the "Company").

Q. DID YOU ALSO PREPARE REJOINDER TESTIMONY ON RATE BASE ISSUES IN THIS DOCKET?

A. Yes. My rejoinder testimony on rate base, income statement, revenue requirement and rate design is being filed in a separate volume at the same time as this testimony. In this volume, I present my cost of capital rejoinder testimony. Also attached are two exhibits, which are discussed below.

II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY

Q. WHAT IS THE SCOPE OF THIS VOLUME OF YOUR REJOINDER TESTIMONY?

A. I will provide responses as appropriate to the surrebuttal testimony of Staff witness Mr. John Cassidy and RUCO witness Mr. Robert Mease. This portion of my rejoinder testimony focuses on cost of capital issues. I will testify in support of USLLC's proposed return on equity and rate of return on its fair value rate base ("FVRB"). I am sponsoring the Company's D Schedules, which are attached to this testimony. There are 22 schedules that support my cost of capital testimony. As noted above, I am also sponsoring rejoinder testimony that addresses the Company's rate base, income statement (revenue and operating expenses), required increase in revenue, and its rate design and proposed rates and charges for service.

III. SUMMARY OF THE STAFF AND RUCO RECOMMENDATIONS

Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A. Staff continues to recommend a capital structure consisting of 0 percent debt and 100 percent equity.[1] Staff 's updated cost of equity of 9.8 percent is based on the average cost of equity produced by its DCF and CAPM models, a financial risk adjustment and an economic assessment adjustment (EAA).[2] Staff did not consider firm size or firm-specific risks in its analysis. Based on its capital structure recommendation, Staff determined the WACC for USLLC to be 9.8 percent.[3]

RUCO continues to recommend a capital structure consisting of 0 percent debt and 100 percent equity.[4] RUCO's updated cost of equity of 9.25 percent is based on the average cost of equity produced by its DCF and CAPM models as wells as a Comparable Earnings analysis and a 70 basis point risk premium.[5] Based on its capital structure recommendation, RUCO determined the WACC for USLLC to be 9.25 percent.[6]

Q. PLEASE COMPARE THE PARTIES' RESPECTIVE COST OF EQUITY ESTIMATES AND RECOMMENDATIONS.

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[1] See Surrebuttal Testimony of John A. Cassidy ("Cassidy Db.") at 16. Staff Surrebuttal Scehydule JAC-3.
2 Id. at 17.
3 Id. at 17.
[4] See RUCO Surrebuttal Schedule RBM-1.
5 See RUCO Surrebuttal Schedule RBM-2.
6 See Surrebuttal Testimony of Robert B. Mease ("Mease Sb.") at 1.

A. The respective parties' cost of equity recommendations are summarized below:

Party	DCF	CAPM	Build-Up/CE	Average	Financial Risk/EAA /Other	Adjusted	Recommended
USLLC	9.6%	9.7%	11.5%	10.3%	N/A	10.3%	11.0%
Staff	9.2%	N/A	N/A	9.2%	0.6%	9.8%	9.8%
RUCO	8.71	7.24	9.8	8.55	0.7%	9.25	9.25%

Q. HAVE YOU UPDATED THE FORECASTS OF COMMON EQUITY RETURNS AND CURRENTLY AUTHORIZED RETURNS? IF SO, HOW DO THEY COMPARE TO THE RECOMMENDATIONS OF STAFF AND RUCO?

A. Yes. And, the recommendations of the Staff and RUCO continue to be much lower. *Value Line* (October 17, 2014) shows actual and projected returns on equity for the water utilities:

Company	Actual 2013	2014	2015	2017-19
American States Water (AWR)	12.7%	11.5%	12.5%	12.5%
Aqua America (WTR)	13.4%	13.5%	14.5%	14.0%
California Water (CWT)	7.9%	8.0%	9.0%	10.0%
Connecticut Water (CTWS)	9.2%	9.5%	10.0%	10.0%
Middlesex Water (MSEX)	8.7%	9.0%	9.5%	9.5%
SJW Corp. (SJW)	7.3%	7.5%	8.0%	8.0%

York Water. (YORW)	9.3%	11.0%	12.5%	12.5%
Averages	9.8%	10.0%	10.9%	10.9%

The currently authorized ROEs for the sample water utility companies as reported by AUS Utility Reports (November 2014) average 10.03 percent. They are as follows:

Company	
American States Water (AWR)	9.99%
Aqua America (WTR)	10.29%
California Water (CWT)	9.99%
Connecticut Water (CTWS)	9.75%
Middlesex Water (MSEX)	10.15%
SJW Corp. (SJW)	9.99%
York Water. (YORW)	NM
Average	**10.03%**

Q. DO YOU STILL MAINTAIN THE VIEW THAT THAT USLLC'S COST OF EQUITY IS HIGHER THAN THE PUBLICLY TRADED UTILITIES?

A. Yes. Besides the obvious liquidity risk (lack of liquidity of investment), smaller utilites face the risks of a smaller customer base, limited financial resources, lack of diversification across the customer base and geography.[7] The business risk

[7] Annin, Micheal, "Equity and the Small-Stock Effect", Financial News, Public Utilities Fortnightly, October 15, 1995.; 113, 19, pg. 42.

measures such as the coefficient of variation in earnings and operating leverage demonstrate (quantitatively) that smaller utilites, like USLLC are more risky than the publicly traded utilites.[8]

IV. REJOINDER TO THE COST OF EQUITY RECOMMENDATIONS OF STAFF AND RUCO

A. Responses to Staff's Surrebuttal Testimony

Q. PLEASE RESPOND TO MR. CASSIDY'S CRITICISMS (ON PAGE 2) OF YOUR TESTIMONY THAT THE DCF MODEL PRODUCES ESTIMATES OF COMMON EQUITY COSTS ARE CONSISTENT WITH INVESTORS' EXPECTED RETURN ONLY WHEN THE STOCK PRICE AND BOOK VALUE ARE REASONABLY SIMILAR.

A. Mr. Cassidy's testimony mischaracterizes the main point of my testimony. I do state the we should be concerned with the applicability of the DCF under current market conditions.[9] That said, my example provided on page 10 was to demonstrate that the application of the DCF model produces estimates of the cost of equity that are consistent with investor expectations *only* when the market price of a stock and the stock's book value are approximately the same.[10]

Q. CAN YOU DEMONSTRATE THIS ANOTHER WAY?

A. Yes. Dr. Morin provides a simple numerical illustration demonstrating the impact of market-to-book ("M/B") ratios on the DCF market return in his book, *New Regulatory Finance*. I have included a copy of this analysis as **Rejoinder Exhibit TJB-COC-RJ1**.

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[8] See Direct Testimony of Thomas J. Bourassa ("Bourassa Dt.") at 23-26.

[9] Bourassa Rb. at 11-12.

[10] Bourassa Rb. at 10.

Q. DOES THE FACT THAT STAFF'S UPDATED DCF COST OF EQUITY IS NOW 9.2 PERCENT CHANGE YOUR OVERALL ANALYSIS AND CONCLUSIONS DRAWN FROM YOUR EXAMPLE?

A. No. Restating my example using Mr. Cassidy's updated average DCF estimate of 9.2 percent, USLLC would still have no realistic opportunity to actually earn Mr. Cassidy's market-based rate of return. For example, the average market price per share of his proxy group is $25.25[11] and the average book value per share is $12.50.[12] Under these circumstances, Mr. Cassidy's 9.2 percent market-based cost rate implies an annual return per share of $2.32[13] consisting of $0.73 in dividends[14] and $1.59 in growth (market-price appreciation).[15] However, application of a 9.2 percent return rate to book value per share ($12.50) produces an opportunity to earn a total annual return of just $1.15.[16] With annual dividends of $0.69[17], the utility could reasonably expect market-price appreciation of $0.46[18], or only 1.82 percent[19].

Q. WHAT ABOUT MR. CASSIDY'S ASSERTION THAT YOU SHOULD HAVE USED WEIGHTED AVERAGE STOCK PRICES AND BOOK VALUES?

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[11] Average of stock prices for Cassidy proxy group at September 28, 2014.

[12] Average of book value per share as of December 31, 2013, as reported by *Value Line*.

[13] 9.2 percent times $25.25.

[14] Average adjusted dividend yield (D_0) for Cassidy proxy group of 2.9 percent times the average stock price of $25.25.

[15] Implied growth of 6.3 percent (the return of 9.2 percent less adjusted dividend yield of 2.9 percent) times the average stock price of $25.25.

[16] 9.2 percent times $12.50.

[17] $1.15 times average payout ratio of 60%

[18] $1.15 minus $0.69.

[19] $0.46 divided by $25.25.

A. Putting aside the fact that Mr. Cassidy provides no theoretical or authoritative support for his position, and assuming he is correct that weighted averages of the stock prices and book values per share based upon market capitalization should have been used, the results of the analysis are similar to the results using the simple averages of the stock price and book value per share. More importantly, the conclusion drawn from the analyses are the same; that USLLC would still have no realistic opportunity to actually earn Mr. Cassidy's market-based rate of return.

Again, restating my example using Mr. Cassidy's updated average DCF estimate of 9.2 percent and using market capitalization weighted averages for the stock price and book value, USLLC would still have no realistic opportunity to actually earn Mr. Cassidy's market-based rate of return. For example, the weighted average market price per share of his proxy group is $24.94[20] and the weighted average book value per share is $10.81.[21] Under these circumstances, Mr. Cassidy's 9.2 percent market-based cost rate implies an annual return per share of $2.29[22] consisting of $0.72 in dividends[23] and $1.57 in growth (market-price appreciation).[24] However, application of a 9.2 percent return rate to book value per share ($10.81) produces an opportunity to earn a total annual return of just $0.99.[25]

[20] Weighted average of stock prices for Cassidy proxy group at September 28, 2014 based upon market capitalization.

[21] Weighted average of book value per share as of December 31, 2013 based upon market capitalization, as reported by *Value Line*.

[22] 9.2 percent times $24.94.

[23] Average adjusted dividend yield (D_0) for Cassidy proxy group of 2.9 percent times the average stock price of $24.94.

[24] Implied growth of 6.3 percent (the return of 9.2 percent less adjusted dividend yield of 2.9 percent) times the weighted average stock price of $24.94.

[25] 9.2 percent times $10.81.

With annual dividends of \$0.50[26], the utility could reasonably expect market-price appreciation of \$0.49[27], or only 1.96 percent[28].

Q. WHAT WOULD HAPPEN TO THE STOCK PRICE IF INVESTORS RECEIVE A DVIDEND OF JUST \$0.50?

A. It would decline signifcantly. Let me explain. Using the previous example, if investors expect a dividend of \$0.72 based upon a dividend yield of 2.9 percent and a market price of \$24.94, but investors only get a dividend of \$0.50[29], then the market price of the stock must necessarily decline to \$17.24[30] (\$7.70 per share). This is because investors expect a dividend yield of 2.9 percent but the actual dividend paid (\$0.50) provides only a dividend yield of 2.0 percent. The stock price would further decline because investors would not receive the growth in the stock price they expect. In other words, investors would not receive their expected return on the price they paid for the stock and the market price will be driven down to book value so that investors will achieve their expected return.

Q. PLEASE RESPOND TO MR. CASSIDY'S TESTIMONY (ON PAGES 3 AND 4) THAT THE FINANCIAL RISK FOR THE PUBLICLY TRADED COMPANIES IS HIGHER THAN THAT FOR USLLC.

A. I agree. I have considered USLLC's lower financial risk in my recommendation of an 11.0 percent cost of equity for USLLC.[31] Business and financial risk, while separate risks, are interrelated. Specifically, a common equity investor may seek

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[26] \$0.99 times weighted average payout ratio of 51%

[27] \$0.99 minus \$0.50.

[28] \$0.49 divided by \$24.94.

[29] \$0.99 times weighted average payout ratio of 51%

[30] \$0.50/2.9 percent

[31] See Direct Testimony of Thomas J. Bourassa ("Bourassa Dt.) at 28.

to offset exposure to high business risk by investing in a firm perceived to have a low degree of financial risk. Studies show that smaller firms tend to offset business risk with lower financial risk. A study by Scott and Martin[32] found statistically significant results for unregulated firms in twelve industries that "smaller equity ratios (higher leverage use) are generally associated with larger companies".[33] One should expect unregulated enterprises to seek the best balance between debt and equity to obtain the lowest overall cost of capital. The findings of Scott and Martin suggest smaller firms found it prudent to offset higher business risks related to being small by reducing financial risk. This evidence suggests the least cost equity ratio for USLLC should be higher than the average equity ratio for the utility proxy group.

Q. IS USLLC'S LACK OF FINANCING FLEXIBILITY ALSO A SOURCE OF ADDED RISK?

A. Yes. Because USLLC is not publicly traded, it does not have access to equity markets available to publicly traded utilities in the water proxy group. This lack of financing flexibility increases risk because USLLC has to rely on fewer sources of capital. By contrast, utilities in the water proxy group utilities sample have the flexibility to issue shares of equity in vast equity markets to keep their capital structures in balance and raise additional capital from external sources.

Q. DID YOU STATE IN YOUR REBUTTAL THAT STAFF HAS NOT EXPLAINED ITS REASONS FOR NOT CONSIDERING THE CAPM?

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[32] Scott and Martin, "Industry Influence on Financial Structure," *Financial Management*, Spring 1975, pp. 67-71
[33] Id. p. 70.

A. No. I did sugguest a possible reason for Staff's decision to not use the CAPM.[34] That is, the CAPM using the Staff inputs produce distortions in the results which cannot pass the reasonableness test. This reason fits into Staff's rather vague explanation of why it did not consider its CAPM.

Q. WHY DO YOU FIND STAFF'S EXPLANATION FOR NOT CONSIDERING THE CAPM VAGUE?

A. For at least three reasons. First, Staff does not explain what it means by "continuing divergence" from its DCF and does not explain the conditions under which its CAPM results are acceptable to Staff. Rejecting the CAPM at Staff's convenience seems to me to be a results oriented approach. Second, implied in the Staff explanation is the notion that its CAPM must produce results similar to its DCF results. Instead of examining the reasons and possible flaws in its CAPM approach (or even the DCF for that matter) and adjusting its approach, it simply abandons its CAPM until such time as Staff deems its CAPM results to be reasonable. Third, by using its DCF results as its "benchmark" and only using its DCF model to base its recommendation in the instant case, Staff is suggesting the only correct way to measure the cost of equity is with its DCF. Again, this seems to me to be a results oriented approach. As Dr. Morin states,"when measuring equity costs, which essentially deals with the measurement of investor expectations, no single methodology provides a foolproof panacea."[35]

Q. PLEASE RESPOND TO MR. CASSIDY'S TESTIMONY (ON PAGE 7) THAT MODIFYING YOUR CURRENT MARKET RISK PREMIUM METHODOLOGY IS SELF-SERVING.

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[34] Bourassa Rb. at 18.

[35] Roger A. Morin. *New Regulatory Finance*, Public Utility Reports, Inc., 2006. pp. 428-429.

A. I have a three responses. First, I have modified my approach to estimating the cost of equity over the years, many of which were compromises based upon the Staff criticisms of my methods. Second, in the recently filed Quail Creek Water rate case (Docket No. W-02514A-14-0343) I am recommending a current market risk premium ("MRP") method which is similar to the one I propose in this case. I have done so because I believe it is superior to the method using price appreciation.[36] That said, when I find better methods to estimate the cost of equity, I use them. A perfect example has been my use of the build-up method in more recent cases. Third, using the projected EPS and DPS growth is more consistent with the underlying requirements of the DCF method used to compute the current market risk premium ("MRP"). After-all, Staff uses EPS and DPS growth in its own DCF model. Third, Staff has historically used the spot 3-5 year price appreciation for estimating the current MRP. Putting aside my concerns about the volatility of this method,[37] based on the the recent *Value Line* Investment Survey Summary and Index (October 24, 2014) Staff's estimate of the current MRP would be at least 8.88[38] percent, which is 55 basis points higher than my current MRP estimate of 8.33 percent.[39]

Q. MR. CASSIDY ASSERTS (ON PAGE 10) THAT THE CURRENT MARKET RISK PREMIUM METHOD YOU EMPLOY IS NOT CONSISTENT WITH DR. MORIN'S STUDY. PLEASE RESPOND.

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[36] Bourassa Rb. at 2.

[37] Bourassa Dt. at 39.

[38] Using median dividend yield of 2.2 percent, median price appreciation is 45 percent (annualized growth of 9.73 percent), and spot long-term U.S. Treasury rate of 3.05 percent, the DCF based estimate produces an expected market return of 11.93%. Subtracting the spot long-term U.S. Treasury rate produces an 8.88 percent current market risk premium (11.93-3.05%).

[39] See USLLC Rejoinder Schedule D-4.11.

A. Mr. Cassidy mischaracterizes Dr. Morin text. In describing the study upon, which Dr. Morin's example is based, Dr. Morin does not stop at describing the expected market return from the study as the sum of the spot dividend added to the average diviendeds and earnings forecasts. Dr. Morin goes on to state[40],

> At the time, excluding high growth stocks, the ***expected dividend yield*** (e.g. D_1/P_0) on the aggregate market was 3.3% and the projected growth for the Value Line common stocks was in the range of 8.5% to 11.2%. Adding these two components together produced an expected return on the aggregate equity market in the range of 11.8% to 14.5% with a mid-point of 13.2%. ***Recognition of quarterly dividend payments, and an expected dividend yield (e.g. D_1/P_0) rather than a spot dividend yield (e.g. D_0/P_0)*** brought this estimate to abount 13.6%....(***emphasis added***)

Mr. Cassidy's selected quote gives one the impression that Dr. Morin only described the approach as using a spot dividend yield and is completely misleading. Recognition of the expected dividend yield is embedded in the standard DCF model ($K = D_1/P_0 + g$) and Dr. Morin's statement above is entirely consistent with it.[41] I would note that Dr. Morin also describes recognizing the impact of quarterly dividends (time value of money on dividend payments) which increased the expected aggregate market return. Dr. Morin discusses quarterly dividends and the impact on the cost of equity at length in his textbook, *New Regulatory Finance*.[42]

[40] Morin, p. 166.

[41] Morin, p. 254.

[42] Morin, p. 282 and pp. 343-349.

Q. DOES YOUR METHOD REFLECT QUARTERLY DIVIDEND PAYMENTS?

A. No. Had I done so, my current MRP would have been higher.

Q. DOES DR. MORIN RECOMMEND THE USE OF A SPOT LONG TERM U.S. TREASURY YIELD IN THE CAPM AS MR. CASSIDY SUGGESTS (ON PAGE 11)?

A. No. Again, Mr. Cassidy mischaracterizes Dr. Morin's text. The text Mr. Cassidy cites says nothing about a spot yield, rather that yields on long-term U.S. Treasury bonds should be used. This could be a spot yield or a forecast yield. That said, Dr. Morin states[43],

> At the conceptual level, given that ratemaking is a forward-looking process, interest rate forecasts are prefereable. Moreover, the conceptual models used in the determination if the cost of equity, such as the CAPM, are prospective in nature and require expectational inputs.

I employ expected yields on long-term U.S. Treasuries rather than spot yields which is entirely consistent with the quotation of Dr. Morin's text by Mr. Cassidy and Dr. Morin's quotation above. Mr. Cassidy's assertion that my historical CAPM and my current MRP CAPM is overstated is unfounded.[44]

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[43] Morin, p. 172.

[44] Cassidy Sb. at 11.

Q. DOES MR. CASSIDY DISPUTE THAT THE RELATIVE MEASURES OF BUSINESS RISK (THE COEFFICENT OF VARIANCE OF EARNINGS AND OPERATING LEVERAGE) ARE NOT VALID BUSINESS RISK MEASURES?

A. No. And, despite this quantitative evidence, he does not believe USLLC is more risky than the water proxy group as measured.[45] Mr. Cassidy simply dismisses the evidence by making the statement that businesses in the same lines of business tend to experience the same fluctuations in business cycles.[46] I take this to mean Mr. Cassidy believes that an investment in Hyatt Worldwide Holdings has the same business risk than a small mom and pop hotel in central Phoenix. This defies common sense. That said, Mr. Cassidy goes on to state "as a regulated public water utility one would expect USLLC's exposure to business risk to be essentially the same as that of regulated publicly-traded utilities".[47] Putting aside my earlier comment about common sense, I am sure Mr. Cassidy is well aware of the financial difficulties encounted by the smaller utilities in Arizona. In fact, this Commission has recognized the problems associated with small water utilities in Arizona.[48]

Q. DO SMALLER UTILITES TYPCALLY HAVE HIGHER RELATIVE BUSINESS RISK AS REFLECTED IN THESE TWO MEASURES?

A. Yes. I began computing the co-efficent of variance of earnings and operating leverage in the past few years for utilities who I assisted in filing rate cases.

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[45] Cassidy Sb. at 13 and 14. See also Bourassa Dt. at

[46] Cassidy Sb. at 15.

[47] Cassidy Sb. at 15.

[48] Decision 62993, dated November 3, 2000.

Consistently, the smaller firms have had higher business risk relative to the public traded companies.[49] Mr. Cassidy may disagree with how much more risky a smaller utility is compared to the water proxy group, but he cannot say that smaller utilities have the same business risk.

Q. DOES THE FACT THAT UTILITIES ARE REGULATED ELIMINATE SMALL FIRM RISK?

A. No. Utilities are granted an opportunity to earn a return. They are not guaranteed a return. Smaller utilities are less likely to achieve their authorized return and miss the mark by a greater degree than the larger publicly traded utilities. The higher co-efficient of variance on earnings and operating leverage are, in part, a reflection of that.

Q. PLEASE RESPOND TO MR. CASSIDY'S TESTIMONY (ON PAGES 13 AND 14) REGARDING THE STUDY PERFORMED BY MS. WONG?

A. Mr. Cassiy has not explained why Dr. Zepp's criticisms regarding Ms. Wong's study are wrong, why Dr. Zepp's study and his conclusions regarding smaller water utilities are wrong, nor why the conclusions of the California Public Utilities Commission regarding the higher risks of smaller utilities are wrong. Mr. Cassidy simply dismisses all the evidence on small size and risk premiums by relying on one single and obscure study by Ms. Wong.

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[49] e.g. Las Quantas Serenas Water Company (ACC Docket No. W-01583A-13-0113); Quail Creek Water Company (ACC Docket No. W-02514A-14-0343); Lago Del Oro Water Company (Docket No. W-01944A-13-0215); Payson Water Company (ACC Docket No. W-03514A-13-0111); Libery Utilities (Pine Bluff Water), Inc. (Arkansas Public Service Commission Docket No. 14-020-U); Alaska Power and Telephone (Regulatory Commission of Alaska Docket No. U-14-002); and Municipal Light and Power (Regulatory Commission of Alaska Docket No. U-13-184).

Q. DO YOU HAVE ADDITIONAL EVIDENCE THAT SMALLER UTILTIES ARE MORE RISK THAN LARGER UTILITIES?

A. Yes. Attached as **Rejoinder Exhibit TJB-COC-RJ2** is an article by Micheal Annin, "Equity and the Small-Stock Effect", *Financial News*, Public Utilities Fortnightly, October 15, 1995. In a study prepared by Mr. Annin, he showed that the smaller utilities had higher returns than larger utilities as estimated by the CAPM. He also noted the CAPM's inability to account for all the risks of stocks, particularly for smaller firms. He found that adding a small company risk premium increased the traditional CAPM return by 400 basis points for smaller utilities.

Q. MR. CASSIDY NOTES THAT THE COMMISSION HAS NOT PREVIOUSLY ADOPTED A SMALL COMPANY RISK PREMIUM. PLEASE COMMENT?

A. I have three comments. First, I am not sure that is necessarily true. This Commission has adopted equity returns for small utilities in the past which were not specifically adjusted for financial risk even though there were large differences in capital structures between the utility and the water proxy group. In the instant case, Staff states that it has not adjusted for financial risk even though it has a 100 percent equity capital structure and the water proxy group is approximately 48 percent debt and 52 percent equity because of USLLC's lack of access to the capital markets.[50] By not reducing the cost of equity is, in essence, at least a partial recognition of the additional risks of an investment in USLLC. Second, whether the Commission calls it a small company risk premium or company specific risk premium, the quantitative evidence discussed previously shows that

[50] See Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 27.

USLLC is more risky relative to the publicly traded utilities and by a significant amount. The *Hope* and *Bluefield* standards cannot be met without recognition of this higher risk.

B. <u>Response to RUCO's Surrebuttal Testimony</u>

Q. PLEASE COMMENT ON MR. MEASE'S TESTIMONY (ON PAGE 2) THAT THE MARKET-TO-BOOK RATIO LESS THAN ONE IMPLIES EXCESSIVE RETURNS AND A MARKET-TO-BOOK RATIO OF GREATER THAN ONE UNDESTAES THE COST OF EQUITY IS A MYTH?

A. As discussed earlier (at page 9) and demonstrated in **Rejoinder Exhibit TJB-COC-RJ1**, the DCF method understates the fair return on book equity since it produces a capitalization rate, if applied directly to book equity, and will produce a market price equal to book value. Mr. Mease provides no authoritative or theorectical support for his "belief" that this is a myth.

Q. HAS MR. MEASE EXPLAINED WHAT A COMPOSITE MEDIAN IS AND WHY HE CHOSE THE DCF COMPOSITE MEDIAN RESULT OVER THE DCF MEAN OR THE DCF MEDIAN RESULT?

A. No. Mr. Mease explained how he computed the composite median of 8.7 percent, but he has not explained what it represents or why he chose it over the other composite median results in Surrebuttal Schedule RBM-3. He has also not explained why he chose this particular composite median over the mean, median, or even the composite means shown on his schedule.

Q. DO YOU HAVE ANY RESPONSE TO MR. MEASE'S SURREBUTTAL TESTIMONY REGARDING HIS CAPM?

A. No. I have expressed my concerns over Mr. Mease's inputs extensively in my rebuttal testimony.[51] Mr. Mease has not provided anything new to support his position(s).

Q. DO YOU HAVE ANY RESPONSE TO MR. MEASE'S SURREBUTTAL TESTIMONY REGARDING MS. WONG'S STUDY AND THE COMMISSION'S REJECTION OF SMALL COMPANY RISK PREMIUMS IN THE PAST?

A. My response would be similar to my earlier comments (at pages 15-18) regarding Ms. Wong's study, the higher business risk of USLLC compared to the publicly traded utilities, and the Commission's past decisions on small company risk premiums.

Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY ON COST OF CAPITAL?

A. Yes. Although my silence on other positions of the other parties in this case on cost of capital that were not addressed in my rejoinder testimony does not constitute agreement with them.

[51] Bourassa Rb. at 24-31.

D SCHEDULES

Utility Source, LLC
Test Year Ended December 31, 2012
Summary of Cost of Capital

Exhibit
Rejoinder Schedule D-1
Page 1
Witness: Bourassa

Consolidated Capital Structure

		Actual End of Test Year				Projected Capital Structure			
Line No.	Item of Capital	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity	3,722,209	100.00%	11.00%	11.00%	3,649,952	100.00%	11.00%	11.00%
4									
5	Totals	3,722,209	100.00%		11.00%	3,649,952	100.00%		11.00%
22	SUPPORTING SCHEDULES:					RECAP SCHEDULES:			
23	D-1								
24	D-3								
25	D-4								
28	Testimony								

Utility Source, LLC
Test Year Ended December 31, 2012
Cost of Long Term Debt

Exhibit
Rejoinder Schedule D-2
Page 1
Witness: Bourassa

		End of Test Year				End of Projected Year			
Line No.	Description of Debt	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1									
2			-	0.000%	0.000%		-	0.000%	0.000%
3			-	0.000%	0.000%		-	0.000%	0.000%
4			-	0.000%	0.000%		-	0.000%	0.000%
5			-	0.000%	0.000%		-	0.000%	0.000%
6			-	0.000%	0.000%		-	0.000%	0.000%
7			-	0.000%	0.000%		-	0.000%	0.000%
8			-	0.000%	0.000%		-	0.000%	0.000%
9			-	0.000%	0.000%		-	0.000%	0.000%
10			-	0.000%	0.000%		-	0.000%	0.000%
11									
12									
13	Totals	$ -	-		0.000%	$ -	-		0.000%
14									
15									
16	Supporting Schdules:								
17	E-1								
18	E-2								
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									

Utility Source, LLC
Test Year Ended December 31, 2012
Cost of Preferred Stock

Exhibit
Rejoinder Schedule D-3
Page 1
Witness: Bourassa

	End of Test Year			End of Projected Year		
Description of Issue	Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement

NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING

SUPPORTING SCHEDULES:
E-1

RECAP SCHEDULES:
D-1

Utility Source, LLC
Test Year Ended December 31, 2012
Cost of Common Equity

Exhibit
Rejoinder Schedule D-4
Page 1
Witness: Bourassa

Line No.		
2	The Company is proposing a cost of common equity of	11.00% .
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	E-1	D-1
19	D-4.1 to D-4.18	

Utility Source, LLC
Summary of Results

Exhibit
Rejoinder Schedule D-4.1
Witness: Bourassa

Line No.	Method	Median Result
1		
2		
3		
4		
5		
6	DCF Constant Growth Estimates[1]	9.0%
7		
8	CAPM Estimates[2]	9.7%
9		
10	Build-up Method Estimates[3]	11.6%
11		
12	Mid-point	10.3%
13		
14		
15		
16	Recommended Cost of Equity[4]	11.0%
17		
18		
19	1 See Rejoinder Schedule D-4-8	
20	2 See Rejoinder Schedule D-4.12	
21	3 See Rejoinder Schedule D-4.18	
22	4 Testimony	
23		

Utility Source, LLC
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Rejoinder Schedule D-4.2
Witness: Bourassa

Company[1]	% Water Revenues[1]	Operating Revenues (millions)[1]	Net Plant (millions)[1]	S&P Bond Rating[1]	Moody's Bond Rating[1]	Allowed ROE (%)[1]	Book ROE (%)
1. American States	71%	$ 458.4	$ 988.7	A+	A2	9.99	12.30
2. Aqua America	98%	$ 770.9	$ 4,233.8	AA-	NR	10.29	14.60
3. California Water	100%	$ 587.0	$ 1,539.5	AA-	NR	9.99	7.90
4. Connecticut Water	100%	$ 94.9	$ 483.8	A/A-	NR	9.75	11.10
5. Middlesex	88%	$ 115.1	$ 451.4	A	NR	10.15	8.90
6. SJW Corp.	95%	$ 277.5	$ 915.0	A	NR	9.99	6.70
Average	92%	$ 384.0	$ 1,435.4			10.03	10.25
Utility Source, LLC (Adjusted as of December 31, 2012)	100%	$ 0.3	$ 4.0	NR	NR		

[1] AUS Utility Reports (September 2014).

Utility Source, LLC
Capital Structures

Exhibit
Rejoinder Schedule D-4.3
Witness: Bourassa

Company	Book Value[1]		Market Value[1]	
	Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1. American States	39.8%	60.2%	21.5%	78.5%
2. Aqua America	48.9%	51.1%	25.9%	74.1%
3. California Water	41.6%	58.4%	28.0%	72.0%
4. Connecticut Water	47.0%	53.0%	32.7%	67.3%
5. Middlesex	40.7%	59.3%	29.0%	71.0%
6. SJW Corp.	51.0%	49.0%	38.1%	61.9%
Average	44.8%	55.2%	29.2%	70.8%
Utility Source, LLC (Actual December 31, 2012)	0.0%	100.0%	N/A	N/A

[1] Value Line Analyzer Data (September 28, 2014)
2 Adjusted Per Rejoinder Schedule D-1

Utility Source, LLC
Comparisons of Past and Future Estimates of Growth

Exhibit
Rejoinder Schedule D-4.4
Witness: Bourassa

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	Five-year historical average annual changes						Average of Future and Historical
		Book			Average	Average Future	Growth
Company	Price[1]	Value[2]	EPS[2]	DPS[2]	Col 1-4	Growth[3]	Col 5-6
1. American States	16.07%	6.50%	13.00%	6.50%	10.52%	2.67%	6.59%
2. Aqua America	11.70%	6.00%	11.00%	7.00%	8.92%	6.00%	7.46%
3. California Water	4.27%	4.50%	4.00%	1.50%	3.57%	6.50%	5.03%
4. Connecticut Water	12.77%	8.00%	8.00%	2.00%	7.69%	5.00%	6.35%
5. Middlesex	8.36%	3.00%	1.50%	1.50%	3.59%	3.60%	3.60%
6. SJW Corp.	4.24%	2.50%	0.50%	3.50%	2.69%	10.50%	6.59%
GROUP AVERAGE	9.57%	5.08%	6.33%	3.67%	6.16%	5.71%	5.94%
GROUP MEDIAN	10.03%	5.25%	6.00%	2.75%	5.64%	5.50%	6.47%

[1] Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, September 28, 2014
3 See Rejoinder Schedule D-4.6.

Utility Source, LLC
Comparisons of Past and Future Estimates of Growth

Exhibit
Rejoinder Schedule D-4.5
Witness: Bourassa

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	Ten-year historical average annual changes					Average	Average of Future and Historical
Company	Price[1]	Book Value[2]	EPS[2]	DPS[2]	Average Col 1-4	Future Growth[3]	Growth Col 5-6
1. American States	12.91%	5.00%	6.50%	3.00%	6.85%	2.67%	4.76%
2. Aqua America	10.31%	8.50%	7.00%	7.50%	8.33%	6.00%	7.16%
3. California Water	10.19%	5.00%	4.00%	1.00%	5.05%	6.50%	5.77%
4. Connecticut Water	6.58%	4.00%	0.50%	1.50%	3.14%	5.00%	4.07%
5. Middlesex	4.38%	4.50%	3.50%	1.50%	3.47%	3.60%	3.53%
6. SJW Corp.	12.91%	5.50%	4.00%	5.00%	6.85%	10.50%	8.68%
GROUP AVERAGE	9.54%	5.42%	4.25%	3.25%	5.62%	5.71%	5.66%
GROUP MEDIAN	10.25%	5.00%	4.00%	2.25%	5.95%	5.50%	5.27%

[1] Average of changes in annual stock prices ending December 31, 2013. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, September 28, 2014.
3 See Rejoinder Schedule D-4.6.

Utility Source, LLC
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Rejoinder Schedule D-4.6
Witness: Bourassa

	[1]	[2]	[3]	[4]
	ESTIMATES OF EARNINGS GROWTH			Average
			Value	Growth (G)
Company	Yahoo[1]	Zacks[1]	Line[2]	(Cols 1-3)[3]
1. American States	1.00%	1.00%	6.00%	2.67%
2. Aqua America	4.00%	5.50%	8.50%	6.00%
3. California Water	6.00%	6.00%	7.50%	6.50%
4. Connecticut Water	5.00%	5.00%	5.00%	5.00%
5. Middlesex	2.70%		4.50%	3.60%
6. SJW Corp.	14.00%		7.00%	10.50%
GROUP AVERAGE	5.45%	4.38%	6.42%	5.71%
GROUP MEDIAN				5.50%

[1] Data as of October 2, 2014
[2] Data as of September 28, 2014.
[2] Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Utility Source, LLC
Current Dividend Yields for Water Utility Sample Group

Exhibit
Rejoinder Schedule D-4.7
Witness: Bourassa

Company	Average Stock Price (P_0)[1]	Current Dividend (D_0)[1]	Current Dividend Yield (D_0/P_0)[1]	Average Annual Dividend Yield (D_0/P_0)[1,2]
1. American States	$ 31.20	$ 0.87	2.79%	3.15%
2. Aqua America	$ 24.24	$ 0.66	2.72%	2.80%
3. California Water	$ 23.41	$ 0.66	2.82%	3.36%
4. Connecticut Water	$ 32.48	$ 1.03	3.17%	3.62%
5. Middlesex	$ 20.24	$ 0.77	3.80%	3.96%
6. SJW Corp.	$ 26.85	$ 0.76	2.83%	2.95%
Average			3.02%	3.31%
Median			2.83%	3.26%

[1] Yahoo Finance. 60 day average of stock prices as of October 2, 2014.
[2] Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Utility Source, LLC
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rejoinder Schedule D-4.8
Witness: Bourassa

	[1] Dividend Yield (D_0/P_0)[1]	[2] Expected Dividend Yield (D_1/P_0)[2]	[3] Growth (g)	[4] Indicated Cost of Equity k=Div Yld + g (Cols 2+3)
DCF - Past and Future Growth	3.02%	3.20%	5.94% [3]	9.1%
DCF - Future Growth	3.02%	3.20%	5.71% [4]	8.9%
Average	3.02%	3.20%	5.82%	9.0%
Median	3.02%	3.20%	5.82%	9.0%

1 Spot Dividend Yield = D0/P0. See Rejoinder Schedule D-4.7.
2 Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.
3 Growth rate (g). Average of Past and Future Growth. See Rejoinder Schedule D-4.4, column 7
4 Growth rate (g). Average of Analyst Estimates Future Growth. See Rejoinder Schedule D-4.6.

Utility Source, LLC
Market Betas

Exhibit
Rejoinder Schedule D-4.9
Witness: Bourassa

	Company	Beta (β)[1]
1.	American States	0.70
2.	Aqua America	0.70
3.	California Water	0.70
4.	Connecticut Water	0.65
5.	Middlesex	0.70
6.	SJW Corp.	0.85
	Average	**0.72**

[1] Value Line Investment Analyzer data (Aug 5, 2013)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

Utility Source, LLC
Forecasts of Long-Term Interest Rates

Exhibit
Rejoinder Schedule D-4.10
Witness: Bourassa

Description	Average Aug-14	2015	2016	Average
Blue Chip Consensus Forecasts[1]	3.20% [1]	4.10% [2]	4.70% [2]	4.40%
Value Line[2]	3.20% [1]	3.90% [3]	4.40% [3]	4.20%
Average				4.30%

[1] Federal Reserve Monthly Average 30 Year U.S. Treasury
[2] June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury
[3] Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury

Utility Source, LLC
Computation of Current Market Risk Premium

Exhibit
Rejoinder Schedule D-4.11
Witness: Bourassa

Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Market Risk Premium (MRP)
Feb	2.01%	2.21%	+	9.83%	=	12.04%	-	3.17%	=	8.87%
Mar	2.01%	2.20%	+	9.83%	=	12.04%	-	3.16%	=	8.88%
April	1.98%	2.16%	+	9.33%	=	11.49%	-	2.93%	=	8.56%
May	2.01%	2.20%	+	9.50%	=	11.70%	-	3.11%	=	8.59%
June	2.14%	2.34%	+	9.50%	=	11.84%	-	3.40%	=	8.44%
July	2.02%	2.21%	+	9.50%	=	11.71%	-	3.61%	=	8.10%
Aug	2.14%	2.34%	+	9.50%	=	11.84%	-	3.76%	=	8.08%
Sept	2.10%	2.30%	+	9.50%	=	11.80%	-	3.79%	=	8.01%
Oct	2.00%	2.19%	+	9.50%	=	11.69%	-	3.68%	=	8.01%
Nov	1.99%	2.18%	+	9.50%	=	11.68%	-	3.80%	=	7.88%
Dec 2013	1.93%	2.11%	+	9.50%	=	11.61%	-	3.89%	=	7.72%
Jan 2014	2.01%	2.21%	+	9.83%	=	12.04%	-	3.77%	=	8.27%
Feb	2.01%	2.20%	+	9.50%	=	11.70%	-	3.66%	=	8.04%
Mar	2.01%	2.20%	+	9.50%	=	11.70%	-	3.62%	=	8.08%
Apr	1.98%	2.16%	+	9.50%	=	11.66%	-	3.52%	=	8.14%
May	2.01%	2.20%	+	9.42%	=	11.62%	-	3.39%	=	8.23%
June	1.98%	2.16%	+	9.33%	=	11.50%	-	3.42%	=	8.08%
July	2.05%	2.24%	+	9.50%	=	11.74%	-	3.33%	=	8.41%
Aug	2.01%	2.20%	+	9.50%	=	11.70%	-	3.20%	=	8.50%
Recommended	2.01%	2.20%	+	9.44%	=	11.65%	-	3.32%	=	8.33%
Short-term Trends										
Recent Twelve Months Avg	2.01%	2.20%	+	9.51%	=	11.70%	-	3.59%	=	8.11%
Recent Nine Months Avg	2.00%	2.19%	+	9.51%	=	11.70%	-	3.53%	=	8.16%
Recent Six Months Avg	2.01%	2.19%	+	9.46%	=	11.65%	-	3.41%	=	8.24%
Recent Three Months Avg	2.01%	2.20%	+	9.44%	=	11.65%	-	3.32%	=	8.33%

Notes:

[1] Median Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data (monthly) - Value Line 1700 Stocks

[2] Expected Dividend Yield (D_1/P_0) equals current average dividend yield (D_0/P_0) times one plus growth rate(g).

[3] Median of Projected EPS, Projected DPS Growth and Projected BV Growth for VL 1700 stocks. Data from Value Line Investment Analyzer Software.

[4] Monthly average 30 year U.S. Treasury. Federal Reserve.

Utility Source, LLC
Traditional Capital Asset Pricing Model (CAPM)

Exhibit
Rejoinder Schedule D-4.12
Witness: Bourassa

	Rf[1]	+	beta[2]	x	RP_M	+	=	k
Historical Market Risk Premium CAPM	4.30%	+	0.72	x	6.70% [3]	+	=	9.1%
Current Market Risk Premium CAPM	4.30%	+	0.72	x	8.33% [4]	+	=	10.3%
Average								9.7%
Median								9.7%

1 Forecasts of long-term treasury yields. See Rejoinder Schedule D-4.10.

2 Value Line Investment Analyzer data. See Rejoinder Schedule D-4.9.

3 Historical Market Risk Premium from (Rp) MorningStar SBBI 2014 Classic Yearbook Table 11-5 Long-Horizon ERP 1926-2013.

4 Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rejoinder Schedule D-4.11.

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Exhibit
Rejoinder Schedule D-4.13
Witness: Bourassa

	Company	Symbol	MV Equity[1]	Book Equity[1]	MVIC[1]	5 Yr Avg. Net Income	Total Assets[2]	5 Yr Avg. EBITDA[3]
			Measures of size (Millions)					
1	American States	AWR	$ 1,191	$ 492	$ 1,517	$ 45	$ 1,281	$ 141
2	Aqua America	WTR	$ 4,195	$ 1,535	$ 5,663	$ 155	$ 4,859	$ 430
3	California Water	CWT	$ 1,096	$ 598	$ 1,522	$ 42	$ 1,996	$ 146
4	Connecticut Water	CTWS	$ 359	$ 197	$ 534	$ 13	$ 579	$ 28
5	Middlesex	MSEX	$ 317	$ 189	$ 447	$ 14	$ 562	$ 39
6	SJW Corp.	SJW	$ 544	$ 322	$ 879	$ 21	$ 1,087	$ 87
	Utility Source, LLC	Proforma	NA	$ 3.7	NA	$ (0.2)	$ 11.1	$ 0.4

[1] From Zacks Investment Research data
[2] From Zacks Investment Research. From E-1 for subject utility.
[3] Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data ($ millions)

Company	Symbol	2013	2012	2011	2010	2009	Average
American States	AWR	$ 62.7	$ 54.0	$ 45.9	$ 33.2	$ 29.5	$ 45.1
Aqua America	WTR	$ 205.0	$ 197.0	$ 143.1	$ 124.0	$ 104.4	$ 154.7
California Water	CWT	$ 47.3	$ 49.0	$ 37.7	$ 37.7	$ 40.6	$ 42.4
Connecticut Water	CTWS	$ 18.3	$ 14.0	$ 11.3	$ 9.8	$ 10.2	$ 12.7
Middlesex	MSEX	$ 16.6	$ 14.0	$ 13.4	$ 14.3	$ 10.0	$ 13.7
SJW Corp.	SJW	$ 23.5	$ 22.0	$ 20.9	$ 24.4	$ 15.2	$ 21.2
Utility Source, LLC		(0.15)	(0.13)	(0.19)	(0.18)	(0.15)	$ (0.2)

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

[4] Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data ($ millions)

Company	Symbol	2013	2012	2011	2010	2009	Average
American States	AWR	$ 161.0	$ 154.0	$ 133.3	$ 134.4	$ 122.6	$ 141.1
Aqua America	WTR	$ 424.3	$ 439.0	$ 397.8	$ 473.2	$ 415.2	$ 429.9
California Water	CWT	$ 155.0	$ 151.0	$ 143.3	$ 155.7	$ 125.5	$ 146.1
Connecticut Water	CTWS	$ 43.4	$ 30.0	$ 24.2	$ 22.5	$ 20.3	$ 28.1
Middlesex	MSEX	$ 42.1	$ 39.0	$ 34.6	$ 43.3	$ 34.6	$ 38.7
SJW Corp.	SJW	$ 91.4	$ 90.0	$ 87.1	$ 75.4	$ 93.5	$ 87.5
Utility Source, LLC		$ (0.0)	$ 0.0	$ (0.0)	(0.01)	0.02	0.42

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance
EBITDA data for subject utility from E-1 and/or ACC reports

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Exhibit
Rejoinder Schedule D-4.14
Witness: Bourassa

MRP_{m+s} Estimates Using Duff & Phelps 2014 Valuation Handbook data (Unlevered)
Assumes 100% Equity and 0% debt
Data Smoothing with Regression Analysis
Smoothed Premium (RP_{m+s}) = Constant + X Coefficients * Log(Relevent Metric)

$RP_{unrelevered} = RP_{levered} - W_d/W_e*(\beta_u-\beta_d)*RP_{market}$
Where β_u = unlevered portfolio beta
β_d = debt beta, assumed to be 0.1
W_d = percentage of debt in capital structure
W_e = percentage of equity in capital structure
$RP_{levered}$ = levered realized risk premium

	MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)
Constant	19.069%	16.046%	19.463%	13.763%	18.027%	15.306%
X Coefficient(s)	-3.233%	-2.591%	-3.243%	-2.623%	-2.851%	-2.736%

		MRP_{m+s} (unlevered)						
Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1 American States	AWR	9.14%	9.07%	9.15%	9.43%	9.17%	9.43%	9.23%
2 Aqua America	WTR	7.38%	7.79%	7.29%	8.02%	7.52%	8.10%	7.68%
3 California Water	CWT	9.26%	8.85%	9.14%	9.49%	8.62%	9.39%	9.13%
4 Connecticut Water	CTWS	10.83%	10.10%	10.62%	10.87%	10.15%	11.35%	10.65%
5 Middlesex	MSEX	11.00%	10.15%	10.87%	10.78%	10.19%	10.96%	10.66%
6 SJW Corp.	SJW	10.24%	9.55%	9.92%	10.28%	9.37%	10.00%	9.89%
Average (unlevered)		9.64%	9.25%	9.50%	9.81%	9.17%	9.87%	9.54%
Utility Source, LLC		NA	14.57%	NA	NMF	15.04%	16.34%	15.32%

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Unlevered Portfilio Beta
(from 2014 Duff & Phelps Valuation Handbook - Table C)

Exhibit
Rejoinder Schedule D-4.15
Witness: Bourassa

			Unlevered Portfolio Beta (β_u)					
	Company	Symbol	(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	Average
1	American States	AWR	0.94	0.96	0.95	0.95	0.97	0.95	0.95
2	Aqua America	WTR	0.87	0.89	0.86	0.88	0.83	0.82	0.86
3	California Water	CWT	0.98	0.96	0.95	0.95	0.94	0.96	0.96
4	Connecticut Water	CTWS	0.96	0.98	0.97	0.97	0.99	1.03	0.98
5	Middlesex	MSEX	0.96	1.00	0.98	0.97	0.99	0.99	0.98
6	SJW Corp.	SJW	0.98	0.98	0.98	0.99	0.97	0.95	0.98
	Average		0.95	0.96	0.95	0.95	0.95	0.95	0.95
	Utility Source, LLC		NA	0.98	NA	1.01	1.05	1.03	1.02

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Exhibit
Rejoinder Schedule D-4.16
Witness: Bourassa

MRP Estimates Using Duff & Phelps 2014 Valuation Handbook data (Relevered)
Relevered Realized Risk Premium

$RP_{relevered} = RP_{unlevered} + W_d/W_e * (\beta_u - \beta_d) * RP_{market}$

Where β_u = unlevered portfolio beta
- β_d = debt beta, assumed to be 0.1
- W_d = percentage of debt in capital structure
- W_e = percentage of equity in capital structure
- $RP_{unlevered}$ = unlevered realized risk premium from Table 2
- RP_{market} = general equity risk premium for the market since 1963.

			MRP_{m+s} (Relevered)						
Company	Symbol	W_d/W_e	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1 American States	AWR	27.4%	10.27%	10.22%	10.29%	10.57%	10.33%	10.57%	10.37%
2 Aqua America	WTR	35.0%	8.70%	9.15%	8.60%	9.36%	8.77%	9.34%	8.98%
3 California Water	CWT	38.9%	10.94%	10.49%	10.76%	11.11%	10.22%	11.02%	10.76%
4 Connecticut Water	CTWS	48.7%	12.88%	12.20%	12.69%	12.94%	12.27%	13.56%	12.76%
5 Middlesex	MSEX	40.9%	12.72%	11.95%	12.63%	12.53%	11.97%	12.75%	12.42%
6 SJW Corp.	SJW	61.5%	12.90%	12.20%	12.57%	12.97%	11.99%	12.56%	12.53%
Average MRP (Relevered)		42.06%	11.40%	11.04%	11.26%	11.58%	10.93%	11.63%	11.31%
Utility Source, LLC		0.00%	NA	14.57%	NA	NMF	15.04%	16.34%	15.32%

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Exhibit
Rejoinder Schedule D-4.17
Witness: Bourassa

Equity Risk Premium Adjustment and Other meterics used in Build-up Method

[1] Estimate of Current Market Risk Premium (RP_{market})	5.00%	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2013)[1]	4.90%	
[3] Equity Risk Premium Adjustment ([1] - [2])	0.10%	
[4] Average MRP (relevered) for publicly traded water companies (from Rejoinder Schedule D-4.16)	11.31%	
[5] MRP (relevered) for publicly traded water companies (RP_{m+s}) ([3] + [4])	11.41%	
[6] Equity Risk Premium Adjustment ([3])	0.10%	
[7] Average MRP (relevered) for subject utility company (from Table D-4.16)	15.32%	
[8] MRP (relevered) for subject utility company (RP_{m+s}) ([6] + [7])	15.42%	
[9] Industry Risk Premium (From Duff & Phelps for SIC 494 Water Supply Industry Exhibit 5-7)	-4.24%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.96%[1])	0.7184	
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-3.05%	
[12] Risk Free Rate (R_f)[2]	2.98%	

[1] From Duff & Phelps 2014 Valuation Handbook.
[2] Yield on 20 Yr U.S. Treasury September 30, 2014 (Federal Reserve)

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Exhibit
Rejoinder Schedule D-4.18
Witness: Bourassa

Cost of Equity (COE) Estimate using Build-up Method

$E(R_i) = R_f + RP_{m+s} + RP_i + RP_u$

Where:

- $E(R_i)$ = Expected (indicated) rate of return
- Rf = Risk-free rate of return. See Rejoinder Schedule D-4.17.
- RPm+s = Market risk premium including size premium. See Rejoinder Schedule D-4.16.
- RPi = Industry risk premium (adjusted). See Rejoinder Schedule D-4-17.
- RP_u = Company-specific risk premium

	Sample Publicly Traded Water Utilities	Utility Source, LLC
R_f =	2.98%	2.98%
RP_{m+s} =	See Sched. D-4.16	
RP_i =	-3.05%	-3.05%
RP_u =	0.00%	0.00%

		Indicated COE $E(R_i)$						
Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1 American States	AWR	10.30%	10.26%	10.32%	10.60%	10.37%	10.60%	10.41%
2 Aqua America	WTR	8.73%	9.18%	8.63%	9.39%	8.80%	9.37%	9.02%
3 California Water	CWT	10.97%	10.52%	10.80%	11.15%	10.25%	11.06%	10.79%
4 Connecticut Water	CTWS	12.91%	12.23%	12.73%	12.98%	12.31%	13.60%	12.79%
5 Middlesex	MSEX	12.76%	11.98%	12.66%	12.56%	12.00%	12.78%	12.48%
6 SJW Corp.	SJW	12.93%	12.24%	12.60%	13.00%	12.03%	12.59%	12.57%
Average COE estimate		11.44%	11.07%	11.29%	11.61%	10.96%	11.67%	11.34%
Median COE Estimate		11.87%	11.25%	11.70%	11.85%	11.19%	11.83%	11.63%
Utility Source, LLC		NA	14.60%	NA	NMF	15.08%	16.37%	15.35%

Utility Source, LLC
Docket No. WS-04235A-13-0331

THOMAS J. BOURASSA
REBUTTAL TESTIMONY

November 7, 2014

EXHIBIT TJB-COC-RJ1

NEW

REGULATORY

FINANCE

Roger A. Morin, PhD

2006
PUBLIC UTILITIES REPORTS, INC.
Vienna, Virginia

TABLE 15-1 EFFECT OF MARKET-TO-BOOK RATIO ON MARKET RETURN	Situation 1	Situation 2	Situation 3
1 Initial purchase price	$25.00	$50.00	$100.00
2 Initial book value	$50.00	$50.00	$50.00
3 **Initial M/B**	**0.50**	**1.00**	**2.00**
4 **DCF Return 10% = 5% + 5%**	**10.00%**	**10.00%**	**10.00%**
5 Dollar Return	$5.00	$5.00	$5.00
6 Dollar Dividends 5% Yield	$1.25	$2.50	$5.00
7 Dollar Growth 5% Growth	$3.75	$2.50	$0.00
8 **Market Return**	**20.00%**	**10.00%**	**5.00%**

But what if investors expect an increase in the price/earnings ratio from 12.5 to 13.5? Then, the growth in value is from $100 to $114.48, or 13.5 times next year's earnings of $8.48, for a total return of 18.5% (dividend yield of 4%, plus growth in value of 14.5%). The orthodox DCF model would indicate returns of 10%, whereas the investors' true expected return is 18.5%. Investor-expected returns are substantially understated whenever investors anticipate increases in relative market valuation, and conversely.

The third and perhaps most important reason for caution and skepticism is that application of the DCF model produces estimates of common equity cost that are consistent with investors' expected return only when stock price and book value are reasonably similar, that is, when the M/B is close to unity. As shown below, application of the standard DCF model to utility stocks understates the investor's expected return when the market-to-book (M/B) ratio of a given stock exceeds unity. This was particularly relevant in the capital market environment of the 1990s and 2000s where utility stocks were trading at M/B ratios well above unity and have been for nearly two decades. The converse is also true, that is, the DCF model overstates the investor's return when the stock's M/B ratio is less than unity. The reason for the distortion is that the DCF market return is applied to a book value rate base by the regulator, that is, a utility's earnings are limited to earnings on a book value rate base.

The simple numerical illustration shown in Table 15-1 demonstrates the impact of M/B ratios on the DCF market return. The example shows the result of applying a market value cost rate to book value rate base under three different M/B scenarios. The three columns correspond to three M/B situations: the stock trades below, equal to, and above book value, respectively. The latter situation is noteworthy and representative of the capital market environment of the last two decades. As shown in the third column, the DCF cost rate of 10%, made up of a 5% dividend yield and a 5% growth rate, is applied to

Utility Source, LLC
Docket No. WS-04235A-13-0331

THOMAS J. BOURASSA
REBUTTAL TESTIMONY

November 7, 2014

EXHIBIT TJB-COC-RJ2

Equity and the small-stock effect
Annin, Michael
Public Utilities Fortnightly; Oct 15, 1995; 133, 19; ABI/INFORM Global
pg. 42

Financial News

By Michael Annin

Equity and the Small-Stock Effect

The capital asset pricing model shows risk inherent in return on equity. But something goes wrong when it's used for small-sized companies.

Does the size of a company affect the rate of return it should earn? If smaller companies should earn a higher return than larger firms, then small utilities, because of their size, should be allowed to adjust the rates they charge to customers.

By far the most notable and well-documented apparent anomaly in the stock market is the effect of company size on equity returns. The first study focusing on the impact that company size exerts on security returns was performed by Rolf W. Banz. Banz sorted New York Stock Exchange (NYSE) stocks into quintiles based on their market capitalization (price per share times number of shares outstanding), and calculated total returns for a value-weighted portfolio of the stocks in each quintile. His results indicate that returns for companies from the smallest quintile surpassed all other quintiles, as well as the Standard & Poor's 500 and other large stock indices. A number of other researchers have replicated Banz's work in other countries; nevertheless, a consensus has not yet been formed on why small stocks behave as they do.

One explanation for the higher returns is the lack of information on small companies. Investors must search more diligently for data. For small utilities, investors face additional obstacles, such as a smaller customer base, limited financial resources, and a lack of diversification across customers, energy sources, and geography. These obstacles imply a higher investor return.

The Flaw in CAPM

One of the more common cost of equity models used in practice today is the capital asset pricing model (CAPM). The CAPM describes the expected return on any company's stock as proportional to the amount of systematic risk an investor assumes. The traditional CAPM formula can be stated as:

$$R_s = [\beta_s \times RP] + R_f$$

where:

R_s = expected return or cost of equity on the stock of company "s"

β = the *beta* of the stock of company "s"

RP = the expected equity risk premium

R_f = expected return on a riskless asset.

Table 1: The Size Premium in CAPM
(By Decile Portfolio in NYSE, 1926-94)

Decile	*Beta*	Arithmetic Mean Return	Actual Return in Excess of Riskless Rate**	CAPM Return in Excess of Riskless Rate**	Size Premium (Return in Excess CAPM)
1	0.90	11.01%	5.88%	6.33%	–0.44%
2	1.04	13.09	7.97	7.34	0.63
3	1.09	13.83	8.71	7.70	1.01
4	1.13	14.44	9.32	7.98	1.33
5	1.17	15.50	10.38	8.22	2.16
6	1.19	15.45	10.33	8.38	1.95
7	1.24	15.92	10.79	8.75	2.05
8	1.29	16.84	11.72	9.05	2.67
9	1.36	17.83	12.71	9.57	3.14
10	1.47	21.98	16.86	10.33	6.53

*Betas are estimated from monthly returns in excess of the 20-year government bond income return, January 1926-December 1994.
**Historical riskless rate measured by the 69-year arithmetic mean income return component of 20-year government bonds.
Source: SBBI 1995 Yearbook

Financial News

Table 2: CAPM vs. CAPM w/ Size Premium

(By Percentile for Electric, Gas, and Sanitary Services Utilities)

	CAPM	CAPM with Size Premium
90th Percentile	16.42%	18.92%
75th Percentile	12.56%	14.72%
Median	10.89%	12.58%
25th Percentile	9.86%	11.39%
10th Percentile	8.63%	10.65%

(Weighted by Market Capitalization)

	CAPM	CAPM with Size Premium
Industry Composite	11.76%	12.33%
Large Company Composite	12.05%	12.07%
Small Company Composite	13.93%	17.95%

Source: Cost of Capital Quarterly '95 Yearbook by Ibbotson Associates
Note: Public utilities include electric, gas, and sanitary services companies.

Table 1 shows *beta* and risk premiums over the past 69 years for each decile of the NYSE. It shows that a hypothetical risk premium calculated under the CAPM fails to match the actual risk premium, shown by actual market returns. The shortfall in the CAPM return rises as company size decreases, suggesting a need to revise the CAPM.

The risk premium component in the actual returns (realized equity risk premium) is the return that compensates investors for taking on risk equal to the risk of the market as a whole (estimated by the 69-year arithmetic mean return on large company stocks, 12.2 percent, less the historical riskless rate). The risk premium in the CAPM returns is *beta* multiplied by the realized equity risk premium.

The smaller deciles show returns not fully explainable by the CAPM. The difference in risk premiums (realized versus CAPM) grows larger as one moves from the largest companies in decile 1 to the smallest in decile 10. The difference is especially pronounced for deciles 9 and 10, which contain the smallest companies.

Based on this analysis, we modify the CAPM formula to include a small-stock premium. The modified CAPM formula can be stated as follows:

$$R_s = [\beta_s \times RP] + R_f + SP$$

where:

SP = small-stock premium.

Because the small-stock premium can be identified by company size, the appropriate premium to add for any particular company will depend on its equity capitalization. For instance, a utility with a market capitalization of $1 billion would require a small capitalization adjustment of approximately 1.3 percent over the traditional CAPM; at $400 million, approximately 2.1 percent, and at only $100 million, approximately 4 percent.

Again, these additions to the traditional CAPM represent an adjustment over and above any increase already provided to these smaller companies by having higher *betas*.

Implications for Smaller Utilities

These findings carry important ramifications for relatively small public utilities. Boosting the traditional CAPM return by a full 400 basis points for small utilities translates into a substantial premium over larger utilities.

Table 2 shows the results of an analysis of 202 utility companies that calculated cost of equity figures. Composites (arithmetic means) weighted by equity capitalization were also calculated for the largest and smallest 20 companies. The results show the impact size has on cost of equity.

For the traditional CAPM, the large-company composite shows a cost of equity of 12.05 percent; the small company composite, 13.93 percent. However, once the respective small capitalization premium is added in, the spread increases dramatically, to 12.07 and 17.95 percent, respectively. Clearly, the smaller the utility (in terms of equity capitalization), the larger the impact that size exerts on the expected return of that security. ▼

Michael Annin, CFA, is a senior consultant with Ibbotson Associates, specializing in business valuation and cost of capital analysis. He oversees the Cost of Capital Quarterly, *a reference work on using cost of capital for company valuations.*

ATTACHMENT 3

Steve Wene, No. 019630
MOYES SELLERS & HENDRICKS LTD.
1850 N. Central Avenue, Suite 1100
Phoenix, Arizona 85004
(602)-604-2189
swene@law-msh.com
Attorneys for Utility Source, L.L.C.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP, CHAIRMAN
GARY PIERCE
BOB BURNS
SUSAN BITTER SMITH
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-04235A-13-0331 **REJOINDER TESTIMONY OF LONNIE McCLEVE**

Q. Please state your name and your role in this matter.

A. Lonnie McCleve. I am an owner of Utility Source, LLC ("Company").

Q. Have you filed testimony in this case previously?

A. Yes.

Q. Has your testimony changed significantly?

A. No, and I adopt my earlier testimony herein.

Q. What is the purpose of your rejoinder testimony?

A. I am commenting on the non-financial issues raised by Staff and the intervenors in their surrebuttal testimony.

Q. Please comment on the surrebuttal testimony of Staff's engineer regarding the enclosure around Well 2 and install a functioning gate.

A. We seem to agree that the Company should be able to construct a cost-effective enclosure, whether that is a fence or a wall, provided it meets all of the regulatory requirements. Knowing that permitting may be required, which often takes quite some time for approval, the Company believes the deadline for filing proof of construction should be at least 120 days.

Q. Does the Company agree with Staff's recommendation regarding BMPs?

A. No. The Company maintains its position on BMPs.

Q. Regarding Deep Well 4, does the Company agree with this recommendation?

A. In surrebuttal, Staff explained that it wants the Commission to prohibit Utility Source from selling the well at a profit and then requiring a developer to drill another well. There is no basis for this concern. Again, the Company has no intention of selling Deep Well 4. This well was drilled to serve Flagstaff Meadows III. The Company hopes that development occurs and Deep Well 4 is needed to meet the increased water demand.

Q. Does the Company agree with Staff's position in surrebuttal regarding a developer paying for a new well?

A. I believe so. Staff's surrebuttal essentially states that the Company can require a developer to pay for the construction of a new well if another well is reasonably necessary to meet water demand. This is consistent with the Company's position.

Q. Does the Company agree with Staff's position in surrebuttal regarding fire

protection and water pressure?

A. No. Staff wants an engineering report on fire flow pressure during high water demand events, including the demand of the standpipe. Staff bases this recommendation on the fact that between 2011 and 2013, there were a few instances when pressure was not sufficient for fire flow. But the mechanical repairs to the pressure pump have been made, which was confirmed by the local fire chief. Admittedly, when a power outage occurs, the pressure pump will not work. The Company does not think an engineering report is necessary.

Nevertheless, if Staff would agree to increase the monthly minimum rates to cover the cost for the engineering report, then the Company would not oppose the recommendation. The Company does not know at this time how much such a report would cost because it does not know what Staff wants included in the report.

Q. Discuss Staff's testimony regarding the standpipe that the Company has built.

A. As stated previously, my partner, Gary Bulechek, was the point person on this project. The Company was selling bulk water from a fire hydrant primarily to contractors and commercial users. Coconino County staff approached the Company and said it would no longer allow the Company to operate in this manner and would need to build a loading station. Put another way, the Company built the new load station to comply with the County rules.

During this time, the Company was earning approximately $3,500 a year from bulk water sales through the hydrant. The Company had no intention of making this an expensive building project. But by the time the Company hired an engineer, followed his advice, and then had to make multiple improvements demanded by the County, we had spent around $50,000 and the project was still not complete. Gary and I decided it made economic sense to finish the project so that the costs expended could be recovered over time. As far as revenues, the Company believes it will generate more revenue than the $3,500 a year gained from sales through the fire hydrant. How much more is anyone's guess.

Q. Please comment on Staff's position relating to the new standpipe operations.

A. First, Staff argues that the Company is "downplaying" the financial impact of the standpipe operation. This is not true. However, the Company does not know how much revenue the standpipe will generate. Further, without any support, Staff claims that all of the revenue from the standpipe operation will flow directly to the owners. This is pure speculation and not even contemplated. The revenues will be treated like all other revenues and will be used to pay the expenses of running the Company.

Q. When should the Company need to file another rate case?

A. The Company has not changed its position.

Q. In his testimony, Nielsen implied that the Company was endangering public health by selling bulk water through a fire hydrant. Is this true?

A. No. The water being sold was drinking water, sold for construction purposes. I understand this is a common practice throughout Arizona. However, Coconino County requires a standpipe for such water sales.

Q. Nielsen further claims that the Company built the fill station without ACC

permission, is that true?

A. Yes, because ACC permission was not necessary.

Q. Please comment on Nielsen's surrebuttal testimony relating to the ownership of the fire hydrants, wells, and other plant and records relating to the time when the utilities were operated by the property owners' association.

A. Nielsen is raising issues that have been established by the Company, reviewed and litigated by Staff, and resolved by previous Commission decisions. To be clear, the Company owns the fire hydrants, the wells, and all of the plant included in its rate base. Admittedly, the Company did need to update the Arizona Department of Water Resources' well registry to show the Company owned the wells, which it has done. *See* enclosures.

As for the property owners' association records, those documents were turned over to the property owners' association approximately seven years ago. Apparently, Nielsen is attempting to establish that the property owners' association paid for the construction of the utilities, which is not true. In the previous rate case, the rate base for the Company was established and any contributions were identified at that time.

Q. Please explain what the Company intends to do with Deep Well 4.

A. Deep Well 4 was constructed to serve Flagstaff Meadows III. The Company intentionally held Deep Well 4 out of rate base for the sake of its customers. The Company intends to bring Deep Well 4 into service soon. This will help alleviate any concerns about the Company's ability to meet peak demands and redundancy.

Q. Please explain the Company's office situation.

A. When the Company was first established, the office was in my personal home. The Company paid the electric bill in lieu of rent. This was not a desirable situation, especially as the need for more space grew. While I still have an office in my home, we moved most of the operations to its current office site at 20525 E. Chandler Height in Queen Creek. This office was acquired as part of a development known as The Pecans. Through my business holdings, I am the declarant who controls the office.

This office is situated at the entrance of The Pecans subdivisions, so there is signage about lot sales, realtors, and other postings one would expect to see at a community gate house. Nonetheless, the Company uses the building to conduct business. I also use this address to receive my business mail, rather than having it come to my home address. Moreover, as explained in responses to data requests, we do allow brokers to use the conference room and meet potential buyers at the gate house office. The only expense Utility Source has for the use of this office is that it continues to pay the utility bill at my personal home, which is less than the Company would pay for renting office space and paying its utilities.

Q. Please comment on Mary Ann Parry's role with the Company.

A. She works full-time for the Company. Nielsen's claim that performing the office management for two regulated utilities can be done on a part-time basis is simply wrong. Her salary is reasonable for the work she performs.

Q. What is your opinion regarding Nielsen's proposed adjustments relating to Mrs. Parry's salary, phone service, copiers, office supplies, power bills, and auto expense?

A. The Company's expert Mr. Bourassa presents the Company's position, but I believe Neilsen's adjustments are off-base. Nielsen is basing these adjustments on his opinion and conjecture.

Q. Does this conclude your rejoinder testimony?

A. Yes.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER 55-593267

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	NW	SE	SW	203	47	001H

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E. Chandler Heights Road

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☑ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/23/2014

Reference	DWR-2589
Amount	$30.00
Date	10/23/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources P.O. Box 36020 Phoenix, Arizona 85067-6020 (602) 771-8527 - www.azwater.gov	**Receipt For Request to Change Well Ownership**

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER 55-598834

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SW	SW	203	47	003A

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E. CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER	FAX
(480) 540-5656	

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2590
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER
55-203241

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SW	SW	203	47	003A

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E. CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2591
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources P.O. Box 36020 Phoenix, Arizona 85067-6020 (602) 771-8527 - www.azwater.gov	**Receipt For Request to Change Well Ownership**

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER
55-515324

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SW	SE			

SECTION

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E. CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2595
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER
55-503545

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SE	SW			

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E. CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☐ **By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.**

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2596
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER
55-559096

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

SECTION 1

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SW	SE			

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL
UTILITY SOURCE, LLC

MAILING ADDRESS
20520 E CHANDLER HEIGHTS ROAD

CITY / STATE / ZIP
QUEEN CREEK, AZ 85142-

CONTACT PERSON NAME AND TITLE

TELEPHONE NUMBER
(480) 540-5656

FAX

WELL ADDRESS

WELL CITY

MAJOR CROSS ROADS

EMAIL
lonniemccleve@me.com

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2594
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER
55-564258

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SW	SE			

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL UTILITY SOURCE, LLC	
MAILING ADDRESS 20520 E. CHANDLER HEIGHTS ROAD	
CITY / STATE / ZIP QUEEN CREEK, AZ 85142-	
CONTACT PERSON NAME AND TITLE	
TELEPHONE NUMBER (480) 540-5656	FAX
WELL ADDRESS	
WELL CITY	
MAJOR CROSS ROADS	
EMAIL lonniemccleve@me.com	

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHELBARRY	10/24/2014

Reference	DWR-2593
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

Arizona Department of Water Resources
P.O. Box 36020 Phoenix, Arizona 85067-6020
(602) 771-8527 - www.azwater.gov

Receipt For Request to Change Well Ownership

Authority for fee: A.R.S. § 45-113 and A.A.C. R12-15-104

Keep this for your records

WELL REGISTRATION NUMBER
55-598623

Pursuant to Arizona Revised Statutes (A.R.S.) 45-593(C), the person to whom a well is registered must notify Arizona Department of Water Resources of Water Resources (ADWR) of a change in ownership of the well and the new owner must furnish information as required by ADWR to keep its well registration records current and accurate.

FEE $30.00 per WELL

Location of Well

TOWNSHIP (N/S)	RANGE (E/W)	SECTION	160 ACRE	40 ACRE	10 ACRE	BOOK	MAP	PARCEL
22N	5E	36	SW	SW	SW	203	47	003A

New Well Owner

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL: UTILTIY SOURCE, LLC	
MAILING ADDRESS: 20520 E. CHANDLER HEIGHTS ROAD	
CITY / STATE / ZIP: QUEEN CREEK, AZ 85142-	
CONTACT PERSON NAME AND TITLE:	
TELEPHONE NUMBER: (480) 540-5656	FAX:
WELL ADDRESS:	
WELL CITY:	
MAJOR CROSS ROADS:	
EMAIL: lonniemccleve@me.com	

SECTION

☐ By checking this box, I hereby provide ADWR permission to enter the property for the purpose of taking water level measurements at this well.

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

PREPARED BY	DATE
RACHEL BARRY	10/24/2014

Reference	DWR-2592
Amount	$30.00
Date	10/24/2014

A *Request to Change Well Information Form* must be filed if there has been a change in the recorded information on a well already in existence. This may include more accurate information on the location of the well, more accurate information on the well construction details for the well, a change in the place of use or purpose of use of the water withdrawn from the well or a change in the county tax assessor's parcel identification number for the land where the well is located. It is the responsibility of the well owner to submit this information to ADWR. Forms may be obtained at the Arizona Department of Water Resources office or online at <http://www.azwater.gov>.

A-7

EXHIBIT

A-7

Ibbotson® SBBI®

2013 Valuation Yearbook

Market Results for
Stocks, Bonds, Bills, and Inflation
1926–2012

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Chapter 3

The Buildup Method

Estimating the equity cost of capital is a difficult task to which much of modern financial theory is devoted. The equity cost of capital is equal to the expected rate of return for a firm's equity; this return includes all dividends plus any capital gains or losses. A properly specified cost of equity must include, if appropriate, provisions for flotation costs and certain market inefficiencies that might not be captured by standard methods for estimating equity rates of return.

There are several widely used and effective methods to estimate the equity cost of capital. The most common of these are: 1) the buildup method, 2) the capital asset pricing model (CAPM), 3) the discounted cash flow (DCF) method, 4) arbitrage pricing theory (APT), and 5) the Fama-French three factor model. This chapter will focus on the buildup method, while Chapter 4 will cover all other cost of equity models.

The Buildup Method for Cost of Equity Capital

The buildup method is an additive model in which the return on an asset is estimated as the sum of a risk-free rate and one or more risk premia. Each premium represents the reward an investor receives for taking on a specific risk. The building blocks are summed arithmetically to form an estimate of the cost of capital.

	Risk-Free Rate
+	Equity Risk Premium
+	Firm Size Premium
+	?
=	Cost of Equity

Risk-Free Rate

Since any risky investment should return at least as much as the riskless asset, the risk-free rate is the starting point of the buildup method. The buildup method, the capital asset pricing model, and the Fama-French three factor model all implicitly assume the presence of a single riskless asset, that is, an asset perceived by all investors as having no risk. Selecting the appropriate risk-free rate is discussed in detail in the CAPM section of Chapter 4.

Risk Premia

There are several risk premia that can be used with the buildup method. Some are widely accepted, while others are more controversial. The equity risk premium is the most common; like the risk-free rate, it is a component of the capital asset pricing model and the Fama-French three factor model. The same equity risk premium can be used in each of these models. For additional information on the equity risk premium, see Chapter 5, which is devoted exclusively to this subject.

Small Stock Premium or Size Premium

A small stock premium or size premium may also be added in the buildup method to account for the additional risk inherent in small company stocks (for additional information regarding size premia, see Chapter 7, which is devoted to this subject). It is important to note, however, that size premia presented elsewhere in this publication have been adjusted for beta. In other words, the portion of the excess return on small stocks that can be explained by their higher betas is not included in the size premia. Some assert that a small stock premium that has not been adjusted for beta would be more appropriate for use in the buildup method. This non-beta-adjusted small stock premium can be calculated by subtracting the arithmetic mean of the large company stock return from the arithmetic mean of the small company stock return. Table 3-1 shows the various size premia on both a beta-adjusted and a non-beta-adjusted basis. Table 3-2 shows how the non-beta-adjusted small stock premia are calculated using the arithmetic mean returns from Table 2-1. Calculation of the beta-adjusted size premia is explained in detail in Chapter 7.

Table 3-1: Size Premia on a Beta-Adjusted versus Non-Beta-Adjusted Basis

	Beta-Adjusted Size Premia (%)	Non-Beta-Adjusted Small Stock Premia (%)
Mid-Cap	1.1	1.9
Low-Cap	1.8	3.4
Micro-Cap	3.8	6.2
Small Company Stocks	3.0	4.7

Data from 1926–2012.

Table 3-2: Derivation of Non-Beta Adjusted Small Stock Premia

	Small Company Stock Arithmetic Mean Return (%)		Large Company Stock Arithmetic Mean Return (%)		Non-Beta-Adjusted Small Stock Premia (%)
Mid-Cap	13.7	–	11.8	=	1.9
Low-Cap	15.2	–	11.8	=	3.4
Micro-Cap	18.0	–	11.8	=	6.2
Small Company Stocks	16.5	–	11.8	=	4.7

1926–2012.

The problem with using a non-beta-adjusted small stock premium is that in doing so one assumes that the company being valued has the same systematic risk (or beta) as the portfolio of small stocks used in the calculation of the size premium. This ignores much of the information that we have regarding market returns. Primarily, different industries tend to have different levels of systematic risk. For example, companies within health services industries tend to have less systematic risk than the market as a whole. Since the beta-adjusted size premium isolates the excess return due to size, it can be applied to a company without making any assumptions regarding the company's systematic risk.

Suppose we wish to calculate the cost of equity for a small electric utility company falling within the micro-cap size group by using the buildup method. Based on our industry knowledge, we know that the electric utility industry tends to exhibit less risk than the market as a whole. We can calculate the cost of equity with either a beta-adjusted size premium or a non-beta-adjusted size premium as follows:

$$k_s = r_f + ERP + SP_s = 2.4\% + 6.7\% + 3.8\% = 12.9\% \text{ or}$$
$$k_s = r_f + ERP + SSP_s = 2.4\% + 6.7\% + 6.2\% = 15.3\%$$

where:

k_s = the cost of equity for company **s**;
r_f = the expected return of the riskless asset;
ERP = the expected equity risk premium, or the amount by which investors expect the future return on equities to exceed that on the riskless asset;
SP_s = the expected beta-adjusted size premium for company **s** based on the firm's equity market capitalization; and
SSP_s = the expected non-beta-adjusted small stock premium for company **s** based on the firm's equity market capitalization.

The first calculation assumes that the company is neither more nor less risky than the market as a whole. The second calculation, however, assumes that the risk of the company is the same as the micro-cap portfolio as a whole. This poses a problem. The micro-cap portfolio is riskier than the market, but the electric utility industry is less risky than the market as a whole. Therefore, in this example, using the non-beta-adjusted size premium may overstate the cost of equity. Since the beta-adjusted size premium assumes that beta is equal to one, the buildup method may still overstate the cost of equity. We know that the electric utility industry exhibits less risk than the market and should therefore exhibit a lower return. Further adjustments for industry risk are necessary.

Industry Premia

One common element appraisers often add to the buildup method is an industry risk premium. Traditionally, the appraiser looks at aspects and characteristics of the industry in which the subject company participates to determine the magnitude of the industry risk premium. A major problem with this process in the past has been the qualitative nature of the analysis. The magnitude of the industry premium was often left to the professional opinion of the appraiser instead of a more quantitative methodology.

Ibbotson developed an industry premium methodology that appraisers can now reference and cite in their appraisal reports. This methodology relies on the full information beta estimation process outlined in Chapter 6, Beta Estimation Methodologies. The full information beta estimation process includes the proportionate risk of all companies that participate in a given industry.

To make it through the screening process, a company must have at least 36 months of return data available, have sales greater than $1,000,000 in the most recent year, and have a market capitalization of at least $10,000 in the most recent month. At the industry level, only those industries that have at least 5 participants and have an aggregate beta between 0 and 3 are considered. Our industry risk premium estimation methodology uses the following equation:

$$IRP_i = (RI_i \times ERP) - ERP$$

where:

IRP_i = the expected industry risk premium for industry **i**, or the amount by which investors expect the future return of the industry to exceed that of the market as a whole;

RI_i = the risk index for industry **i**; and

ERP = the expected equity risk premium.

The equity risk premium figure used in this estimation process is the long-horizon expected equity risk premium outlined in Appendix C. For an industry with a risk index of 1, the expected industry risk premium will be 0, for those with a risk index less than one, the expected industry risk premium is negative, and for those with a risk index greater than 1, the expected industry risk premium is positive.

For example, if an investor were looking at a company that has the same risk as the market, (remembering that we use the S&P 500 as the market benchmark), the risk index, by definition, would be equal to 1, and the industry risk premium would be calculated as follows:

$$IRP = (RI_i \times ERP) - ERP$$
$$IRP = (1 \times 6.7) - 6.7 = 0$$

An **IRP** of 0 implies that the industry has the same risk as the market.

If an investor were studying an industry that has more risk than the market, the risk index would be greater than 1, e.g. 1.4. The industry risk premium would be calculated in the same fashion:

$$IRP = (1.4 \times 6.7) - 6.7 = 2.7$$

An **IRP** greater than 0 implies that the industry is riskier than the market.

And finally, if an investor were examining an industry that has less risk than the market, the risk index would be less than 1, e.g. 0.7, and calculation of the industry risk premium would be as follows:

$$IRP = (0.7 \times 6.7) - 6.7 = -2.0$$

An **IRP** less than 0 implies that the industry is less risky than the market.

The industry risk premium estimates can be found in Table 3-5 at the end of this chapter and should be added to the risk-free rate, equity risk premium, and size premium as follows to determine a cost of equity estimate:

$$k_s = r_f + ERP + SP_s + IRP_s$$

where all of the variables are as given above and $\mathbf{IRP_s}$ is the appropriate expected industry risk premium for company **s**. Table 3-5 also presents the number of companies included in each estimate. For a complete list of companies used to calculate each industry risk premia estimate, visit http://corporate.morningstar.com/IRP and download the Industry Premia Company List Report.

Common Misconceptions and Questions

A concern of some analysts is that the introduction of an industry risk premium in addition to a size premium in the buildup method is a form of double counting. It is not. Size premia measure excess return over what would be predicted by CAPM. In other words, size premia measure that part of return not reflected by beta. An industry risk premium, on the other hand, measures how risky the industry is in relation to the market as a whole, regardless of size.

For example, consider two companies, one a large chain of 10,000 gas stations, the other family-owned, single-location gas station. If there were a major disruption in oil refining capability, both of these businesses would have exposure to this industry risk even after taking into consideration adjustments for their respective size. In the case of our two gas station businesses, one large, one small, the size premia and the industry premia are measuring completely different kinds of risk.

As of December 2012, we published a total of 456 industry risk premia. Of these, 288 were positive and 168 were negative, with a median value of 1.35 percent and an average value of 1.43 percent.

$$IRP_i = (RI_i \times ERP) - ERP$$

where:

IRP_i = the expected industry risk premium for industry **i**, or the amount by which investors expect the future return of the industry to exceed that of the market as a whole;

RI_i = the risk index for industry **i**; and

ERP = the expected equity risk premium.

The equity risk premium figure used in this estimation process is the long-horizon expected equity risk premium outlined in Appendix C. For an industry with a risk index of 1, the expected industry risk premium will be 0, for those with a risk index less than one, the expected industry risk premium is negative, and for those with a risk index greater than 1, the expected industry risk premium is positive.

For example, if an investor were looking at a company that has the same risk as the market, (remembering that we use the S&P 500 as the market benchmark), the risk index, by definition, would be equal to 1, and the industry risk premium would be calculated as follows:

$$IRP = (RI_i \times ERP) - ERP$$
$$IRP = (1 \times 6.7) - 6.7 = 0$$

An **IRP** of 0 implies that the industry has the same risk as the market.

If an investor were studying an industry that has more risk than the market, the risk index would be greater than 1, e.g. 1.4. The industry risk premium would be calculated in the same fashion:

$$IRP = (1.4 \times 6.7) - 6.7 = 2.7$$

An **IRP** greater than 0 implies that the industry is riskier than the market.

And finally, if an investor were examining an industry that has less risk than the market, the risk index would be less than 1, e.g. 0.7, and calculation of the industry risk premium would be as follows:

$$IRP = (0.7 \times 6.7) - 6.7 = -2.0$$

An **IRP** less than 0 implies that the industry is less risky than the market.

The industry risk premium estimates can be found in Table 3-5 at the end of this chapter and should be added to the risk-free rate, equity risk premium, and size premium as follows to determine a cost of equity estimate:

$$k_s = r_f + ERP + SP_s + IRP_s$$

where all of the variables are as given above and $\mathbf{IRP_s}$ is the appropriate expected industry risk premium for company **s**. Table 3-5 also presents the number of companies included in each estimate. For a complete list of companies used to calculate each industry risk premia estimate, visit http://corporate.morningstar.com/IRP and download the Industry Premia Company List Report.

Common Misconceptions and Questions

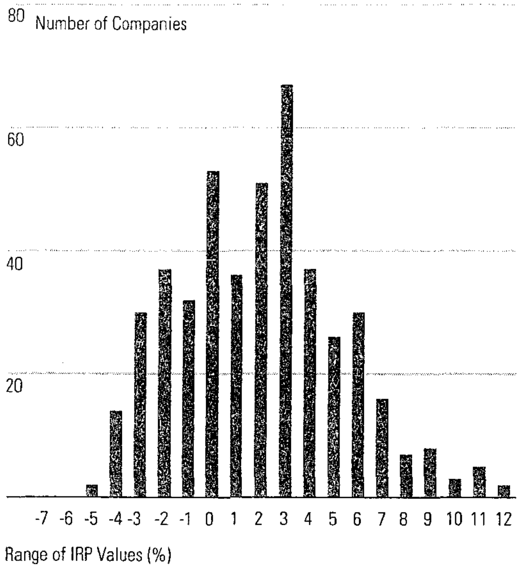
A concern of some analysts is that the introduction of an industry risk premium in addition to a size premium in the buildup method is a form of double counting. It is not. Size premia measure excess return over what would be predicted by CAPM. In other words, size premia measure that part of return not reflected by beta. An industry risk premium, on the other hand, measures how risky the industry is in relation to the market as a whole, regardless of size.

For example, consider two companies, one a large chain of 10,000 gas stations, the other family-owned, single-location gas station. If there were a major disruption in oil refining capability, both of these businesses would have exposure to this industry risk even after taking into consideration adjustments for their respective size. In the case of our two gas station businesses, one large, one small, the size premia and the industry premia are measuring completely different kinds of risk.

As of December 2012, we published a total of 456 industry risk premia. Of these, 288 were positive and 168 were negative, with a median value of 1.35 percent and an average value of 1.43 percent.

The distribution of these premia is shown in Graph 3-1:

Graph 3-1: Industry Risk Premia Distribution



Data as of December 2012.

Starting with the 2005 Valuation Edition Yearbook, the industry risk premia table was expanded to include four-digit SIC codes. The four-digit SIC codes that had the same number of companies as their corresponding three-digit SIC codes were removed. Similarly, three-digit SIC codes that had the same number of companies as the corresponding two-digit SIC codes were removed from this edition. For example, if SIC code 4911 and 491 had the same number of companies, then the companies included in SIC 4911 were also included in 491. Displaying the industry risk premium for SIC 4911 would not reveal any information not already revealed in SIC 491, and therefore SIC 4911 should not be included in the result.

Please note that the size premium to use should be the beta-adjusted size premium found in Appendix C or Table 7-5, and not the small stock premium, which is the simple difference in returns of large and small company stocks. The small stock premium is meant for use by security analysts in constructing an expected return for a small stock benchmark when forecasting (an input to mean variance optimization). The size premium, on the other hand, is intended for use in the construction of a forward-looking cost of equity estimate appropriate to discounting future cash flows. Using the small stock premium in conjunction with the industry risk premium will most likely overestimate the cost of equity. The simple difference between large and small company returns makes the assumption that the systematic risk of the company is the same as the risk of the small company portfolio. The industry risk premium presented here is therefore a better measure of the appropriate systematic risk to apply.

Other Building Blocks

Other building blocks that have been used with this approach are minority discounts, control premia, and a key person discount. Use of these discounts and premia is more controversial, primarily because it is difficult to quantify their size; generally, the magnitude of the premia or discount is set. In addition, these premia do not necessarily represent rewards an investor receives for taking on a specific risk. For instance, does having a majority owner increase or decrease the risk of the business? Most would agree that the risk of a business does not change with ownership.

In some cases, however, a controlling owner may have influence on decisions that affect the risk of a business. Quantifying the effect of this controlling party in terms of a premium is not easily accomplished. Unlike other risk premia, a control premium is not readily measurable. An additional complication is that it is possible for some of these additional factors to already be present as part of the size premia.

In attempting to account for controlling interests or key people, it may be preferable to include these items when projecting cash flows, rather than making arbitrary adjustments to the discount rate. A probability weight can be assigned to the expected future cash flows based on the influence of these factors under various scenarios. From this probability distribution, the expected cash flow can be determined. By discounting these expected cash flows at a pure discount rate, one can achieve a cleaner analysis.

Estimating the Cost of Equity Using the Data Presented in this Book: Buildup Method

Due to the vast amount of data presented in this publication, the need for a reference that makes it easy to find all of the relevant data to estimate the cost of equity arose. Through the following examples, you will see how to use this book to estimate the cost of equity with the current data set as well as for any prior year using the buildup method. For similar examples using the CAPM method, refer to Chapter 4. Table numbers and alternatives are also provided to make your search easy.

Example Using Current Data

Develop a cost of equity estimate for a company operating in SIC Code 36, the Electronic and Other Electrical Equipment industry, with a market capitalization of $275 million.

Table 3-3: Buildup Method Cost of Equity Example Estimate
Current Data

	Components		Current Estimates	Table Reference
	Riskless Rate		2.41	Appendix C
+	Equity Risk Premium	+	6.70	Appendix C
+	Industry Risk Premium	+	1.84	Table 3-5
+	Size Premium	+	3.81	Appendix C
	Cost of Equity Estimate		14.76	

Year-end 2012.

Table 3-3 illustrates the estimation of the cost of equity using current data and the buildup method. From Appendix C, select the yield on the riskless asset. This is the current yield on a government security or the market's current forecast of the riskless rate for the term on the security. Since we are looking to estimate the cost of equity for the entire firm, and the firm is a going concern; we should choose the long-term U.S. Treasury coupon bond yield of 2.41 percent. This yield can also be found in Table 4-1.

Again, from Appendix C, the long horizon equity risk premium of 6.70 percent should be used.

The industry premium of 1.84 percent can be found in Table 3-5 for SIC Code 36, the Electronic and Other Electrical Equipment industry.

The company falls within the micro-cap category based on the figures in Appendix C or Table 7-2, so the appropriate size premia is 3.81 percent. Alternatively, one could use the decile analysis found in Appendix C and Chapter 7, Table 7-5, to determine the appropriate size premium. In addition to size premia estimates for mid–, low–, and micro-cap companies, Appendix C and Table 7-5 contain estimates by decile. Due to the magnitude of difference between deciles, especially in the smallest deciles, it may be appropriate to use the size premium for the corresponding decile. In this example, the company we are analyzing falls within decile 9 based on the figures found in Appendix C and Table 7-2. Therefore, an alternative size premium would be 2.70 percent, the size premium for decile 9.

Example Estimating the Cost of Equity for a Prior Year

Develop a cost of equity estimate for the same company as of 1996. The company operates in SIC Code 36, the Electronic and Other Electrical Equipment industry, with a market capitalization of $186 million as of December 30, 1996.

Table 3-4: Buildup Method Cost of Equity Example Estimate
Prior Year Data

	Components		1996 *Estimates*	Table *Reference*
	Riskless Rate		6.7	Appendix B-9
+	Equity Risk Premium	+	7.5	Appendix A-1
+	Industry Risk Premium	+	NA	
+	Size Premium	+	3.4	Appendix A-6
	Cost of Equity Estimate		17.6	

Year-end 1996.

Table 3-4 illustrates the estimation of the cost of equity using data from 1996 and the buildup method. From Appendix B, Table B-9, select the yield on the riskless asset, the long-term U.S. Treasury coupon bond yield, for year-end 1996 of 6.7 percent.

From Appendix A, Table A-1, select the long horizon equity risk premium with starting date 1926 and ending date 1996, 7.5 percent. To find a value from Appendix A, select a beginning date across the top of the page. These tables span six pages each, so you will have to find the appropriate page. Once you find the beginning date, scroll down the first column to find the appropriate ending date. The number contained at the intersection of the beginning date 1926 and the ending date 1996, is the average value over that period.

Since Ibbotson did not calculate industry premia in 1996, this estimate is not available. In 1996, the company fell within the micro-cap category based on the figures in Table 7-3. From Appendix A, Table A-6, select the micro-cap size premium with starting date 1926 and ending date 1996, 3.4 percent. Please note that the omission of the industry premium results in an estimate that is lower than that of the CAPM model. An adjustment, either positive or negative, to account for industry risk may be applied. However, as stated above, Ibbotson did not provide a statistically based estimate for industry risk premia in years prior to 2000.